1944-45 **File No.** 7026/36-I

ACTS P.W. **DEPARTMENT**

El. **BRANCH**

Subject: Public utility electric supply.

Finance rules for the control of—

El.

File No. 7026/36-I.

Ed. Secrt. Rly. 21 A—

G R., G D., No. 2408, dated 22-6-22.]

Correspondence

DOCKET SHEET (B)

Subject :—

File No. 7026/36 I

P. W DEPT.

El. BRANCH.

References :—

Date.	To whom sent.	Notes and instructions.

It is of great importance that we should examine this and give a reply to the Electrical Commr. embodying our views as early as possible. The matter is important not only for the purpose for which the suggestions are intended, i.e. for dealing with licensees in the ordinary way, but also in regard to the Grid. The latter is concerned more closely with a partivular point, viz. that we shall be purchasing all bulk power from selected stations and therefore have to promulgate rules fixing the rate on the basis of cost of manufacture, interest, depreciation etc. This will not involve the same as rules limiting the profit of licensees generally, since purchase of bulk power will not be on the basis of general legitimate profits of a company on its retail business, but it is of course necessary that the Grid rules on the relevant points shall not be out of accordance with the general rules we may adopt on this reference. The matter has already come to a head in regard to the Grid, since we have to tell the Ahmedabad Company, which is ordering machinery in advance, what the rules are likely to be on the above points, to the best of our ability <u>now.</u>

2. In a note on the subject, the Speial Officer, Mr. Advani, has suggested that the best plan, in regard to the immediate question of the Grid, will be for him to borrow some of the statements of accounts, which he believes the Electrical Engineer receives from Electric Supply Companies, and arrange for the Accounts Officer of the Dept. of Industries to apply the draft principles suggested by Electrical Commr. with a .....

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with a view to see how the reasonable returnn and depreciation rates very with those suggested by Special Officer in his Grid rules; and that after this information is available, we can take up with Electrical Commr. the question of what amendments to his draft we may consider desirable.

3. This may be done and the case may therefore go to Mr. Advani in the first instance. I should also like his views on the principles suggested by the Electrical Commr. Generally. The case may then go to P.W.D. for examination by it in consultation with Electrical Engineer as soon as possible.

Id/- 23/7/44. Secy. PWD.(I.& R.)

Forwarded on the first instances to S.O. (Grid) as per A(R)'s para. 3 above. Special Officer.

Id/-
24/7/44.

S.O. (Grid)

I have with me a copy of the Elec. Commr's. letter and draft principles and will do the needful as soon as possible. Meanwhile to save time perhaps A(R) would like the case to be worked on by the P. W. D.

M. B. A.
26/7/44.

A(R). Yes-it may be noted on in P. W. D. in the ordinary way.

28/7/44 Id/-

7026/36.

Is P.W.D. considering the proposals made by the Electrical Commissioner with the Govt. of India for rates & to govern the operations of Electrical Concerns on an all-India Basis? They were sent some time ago and Mr. Advani was also asked to consider from the Grid point of view.

If action has not already been taken, it should be expendited, since the matter is of early importance with regard to the Grid.

Early.

What is the position?

Id/- 18/9/44.

Secy. P. W. D. (I. & R.) Id/- 16/9/44.

El. Br. P.W.D.

Pl. put up very urgently.

Elc. 21/9/44.

Resubmitted.

2. The file containing the proposals was refd. u.o. to the A.C. Bombay and the El. Engr. to Govt. on the 1st. Aug. 1944. They have been expendited on the 19th inst. for the return of the file with their remarks. From the informal enquiries it is understood that the file in question is at present with the El. Engr. to Govt. The above note of A(R) may be shown u/o. to that officer with a request to expedite the return of the file with this remarks.

Yes
Elc.

Id/- 21/9/44. Elc. 21/9/44.

u.o. to El. Engr. of the 22nd Septr. 1944.

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7026/36
26400

Returned with compliments with U.O.R. No. O. A./1428 dated the 23rd/25th September 1944 from the Examiner, Outside Audit.

2. The main file will be returned with my remarks by Friday next.

Id/-

Electrical Engineer to Govt.

U.O.R.to Govt. in the Public Works Department,

Bombay.

No. L&a 31/2773 of 1944 dated 26th Septr. 1944.

El.Br. P. W. D.

Submitted for information with reference to A(R)'s note ~~xx~~ overleaf.

2. The return of this main file from the El. Engr. to Govt. may be awaited.

Id/-
26/9/44

El.
26/9/44

for reformation.

Id/- 27/9/44.

A(R) 26/9/44. Id/-.

See that there is no in due delay.

Id/-
28/9/44

Note by the Examiner, Outside Audit, Bombay, on the draft "Recommended Principles for the control of Public Utility Electric Supply Finance" dated 28th June 1944, forwarded by the Electrical Commissioner, Department of Supply, Government of India.

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INTRODUCTORY:

The following remarks are offered in the light of the experince of the audit of the annual accounts of the Electric supply undertakings in the Bombay Province during the last three years; and as a member of the Advisory Boards constituted by the Bombay Government under clause XI of the Schedule to the Indian Electricity Act, 1910, to report on the maximum charges fixed for certain electricity undertakings.

2. The draft is headed " Recommended Principles ". It is not stated to whom these " Principles " are "recommended", and though they are stated to be " principles ", they seem to be really " conditions" which have to be fulfilled by all electricity undertakings the Provincial Governments and other concerned Para 1 defines the important terms used as " Cost", " clear profits", " capital employed", "standard rate", "Reasonable return" and so on. The definition of "standard rate" specifies the rate at which the "reasonable return" on "capital employed" is calculated for any and every undertaking irrespective of its circumstances and peculiarities and depending only on whether it is less than ten years old or not. The other paras contain detailed provisions as to the creation of the "Tariff and Dividend control" and "Contingencies" reserves, the utilisation of these reserves, provision depreciation, prohibition of delcaration of dividends when there are arrears of depreciation to be written off, accounting for receipts and expenditure on service lines, maximum managing agency remuneration and office allowance, number of directors and their fees, formation of committeess and so on.

Para 17 .....

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Para 17 lays down that not with standing anything contained in any licenses (including the provisions of clause XI of the schedult to the Indian Electricity Act), the Provincial Government can ask an undertaking three years after the commencement of a license to alter rates to the Government's satisfaction and refer the matter to a committee if the undertaking refuses to do so.

3. Draft requires important modifications before issue:

The intention of the " Recommended Principles " is stated to be introduce a standard and automatic basis of control to allay the apprehension that is considered to have arisen by the present methods of control. Though the draft contains some ideas which can be adopted with advantage, I hope it will be agreed from what follows that considerable modifications will have to be made in it before it can be implemented in any manner, either as statutory rules, as conditions to be incorporated in licenses, as directions to Governments or advisory boards or as a published declaration of policy of the Central Government. In its present form, instead of allaying apprehensions, it would accentuate them, cause friction at every stage and create more problems than it solves.

4. It is curious that in a method of control that is intended to allay apprehensions, it is sought to do away with a very valuable safeguard for the electricity undertakings in the Electricity Act, which was introduced after much discussion in the Indian Legislature. Under clause XI of the Schedule to the Act, an Advisory Board to consider maximum rates cannot be appointed by Government before seven years after the commencement of the license and there

after not .....

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there-after not more often than once in five years. This provision was intended to give some time for the undertakings to function profitably before they are asked to reduce rates and to prevent them from being harassed for reduction of rates too often. Para 17 reduces these figures from seven and five to three and two and with reference to established undertakings (unless in their licenses the operation of clause XI was specifically modified by the inclusion of a clause similar to that in the present proposals as in the form of licenses issued by the Bombay Government after 1939) it may not be possible to apply such a clause without amending the schedule itself. Such an amendment of important provisions in the Act may create alarm and opposition.

5. Even if the Act and the Rules thereunder can be suitably modified where necessary, it is still doubtful if the "Recommended Principles " can be issued as they are. At any rate in respect of undertakings in existence at the time of issue of the "Recommended Principles", it may be considered illegal interference with the management of private property. Though the undertakings have got a licence from Government and can be asked to conform to certain well defined restrictions in the public interest, it is doubtful if Government can issue mandatory instructions interfering with the remuneration of the Managing Agents and Directors and such other matters which have been fixed and are regulated by contract. As the undertakings continue to be private property though their rates are under control it is to be expected that the Manging Agents of the undertakings who stand to lose materially, will not accept these 'conditions' without a fight in the courts of law if necessary.

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6. As a form of Governmental control has been working in the Bombay Province for a number of years, it may be useful to see in what respects the proposed procedure differs from that in practice in that province and whether any imporvements can be effected from the experince of the ~~xx~~ province. So far, only the rates of undertakings under licenses in the forms issued before 1939 have ~~xx~~ come under review. The theory under which the Bombay Province Advisory Boards (or Committees) have proceeded all along is that they would make proforma calculations of surpluses and deficits, and on the basis of such pro-forma calucations decide what the rates should be. The undertakings are not told what they can pay and what they should not pay; in the pro-forma ~~xxxxxxxx~~ calculations however (a sample form of which is enclosed), the several figures in the published accounts and in the annual statements of accounts of the undertakings concerned are scrutinised and adjusted with reference to certain principles recognised by the Board. For example, whatever may be the terms of the contract of Managing ~~x~~ Agent with the Electricity Supply Undertaking regarding his agency remuneration and allowances, the Board recognises a certain standard of remuneration based upon the capital employed in the undertaking i.e., a basis somewhat similar to that in para 14 of the " Recommended Principles ". It is not contended that the Managing Agent cannot draw from the undertaking the amount he is entitled to under his contract with it, even if it is considered exorbitant or otherwise objectionable. What the Board says in effect is this. So far as we are concerned, we are of opinion that the undertaking as a whole is entitled to a certain return for the use of its property and Services; if the share-holders and the other persons interested in the profits of the undertakings are not able to induce the Managing Agents to accept less, then it is ~~xx~~ their own lookout and .....

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own lookout and they must accept less return as a consequence. The same is the case also with depreciation; the amount of depreciation that is considered reasonable as a charge against the working of a year is considered in working out the surplus without taking into account the actual depreciation that is written off in the accounts of the undertaking, whether it is more or less. Pro-forma provisions are also made for the write off of Instangibles, the creation of reserves and so on. At the end, a rate of return which varies with reference to the size of the undertaking, the locality in which it is situated, its possibilities and other relevant considerations is decided upon for each undertaking, and this rate of return is applied to a rate base (which is determined on the basis of the reasonable original cost less depreciation provided in the books of the assets of the undertaking useful and used in it), to arrive at the permissible return.

By deducting from the adjusted figure of receipts, the aggregate ~~xx~~ adjusted figure of expenditure (i.e. including the adjusted figures of working expenses, managing agency allowances and remuneration, depreciation, provision for writes off, provision for reserves, permissible return, etc.) the "surplus" available for reduction in rates is arrived at. The claims to relief of the several classes of consumers i.e. light & fans, power etc., are also discussed and the rates to be recommended to Government are finally arrived at. As representatives of the commercial interests and as the Electrical Engineer, and the Examiner, Outside Audit are members with a retired judge as President, and as all interests can give evidence as witnesses before the Board, the Calculations represent a considered judgement taking all the facts into consideration.

Government .....

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Government has statutorily no choice but to accept the rates as recommended by the Board and has to issue orders accordingly specifying the date of effect. The calculations are not published and the undertakings cannot contest the details of calculations which after all have to be considered as a whole and have been arrived at by a competent, representative and impartial authority. Thus no occasions for dispute are given. The undertakings have no choice but to give effect to the rates ordered by Government on the recommendation of the Advisory Board but, as already stated, are not asked specifically to modify the payments made by them or their accounting. As the advisory boards can sit only after seven years from the commencement of the license and thereafter after expiration of further periods of five years, formal enquiries into the rates of undertakings are not too frequent. This procedure of calculating "surplus" or "deficit" has some resemblance to that adopted by Income-tax Officers assessing income; only instead of Government servants doing the calculation a representative Statutory Board does the calculation of "surplus"

7. The "Recommended Principles" are not satisfied with such Pro-forma calculations. The forms of licenses issued by the Bombay Government after 1939 have provisions similar to that in para.2 of the "General Principles" regarding the creation of a "Tariff and Dividends Control Reserve" but neither the Examiner, Outside Audit nor an "Advisory Board" has had occasion to enforce these provisions. The concerns have either not put in three years from the date of commencement of supply of energy or have had no supplus over the permissible return available for distribution between the licensee and the consumers.

8. .....

8. It has been stated that the formation of a "Tariff and Dividents Control Reserve " is one of the key features of the scheme (vide explanatory note on paras 2 and 3) and that the general adoption of the principles should entirely remove one of the main reasons for calling Advisory Boards (explanatory note on para 17). It is also expected that under the new system, there will be an automatic adjustment of rates on the basis of the reasonable return allowed. Past experience does not justify such an optimistic view of affairs. Under the scheme, every undertaking will have to make a calculation every accounting year, of its "clear profits", its "reasonable return" and what amount is cerditable to its "Tariff and Dividends Control Reserve", and presumably send such a calculation to some authority for check, for having any short credits to the reserve rectified, and for seeing that the reserves are properly utilised. Without such an authority the scheme cannot be enforced, but the draft has not provided for it. Instead of an Advisory Board being appointed not more than once in five years as at present, an authority will have to check these calculations every year and enforce its decisions on the calculations every yeaf under the "Recommended principles". Provisions similar to those in the new form of license of the Bombay Government (viz: that the method of reducing rates by utilisation of the Reserve Fund shall be specifically prescribed by the Government and that if any difference arises as to the carrying out the obligations in the clause prescribing the Reserve Fund and it utilisation, the matter shall be referred to Government or to any officer appointed by the Government for the purpose and that the decision of Government of such officer theron shall be final) shall have to be included in these "General Principles" before issue. It is suggested that the Examiner, Outside Audit or other corresponding officer of the Accountant General's Office concerned should be asked to audit .....

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audit the annual statements of accounts of the electricity undertakings in all provinces and that one of the statements prescribed should be the calculation of the credits due to the "Tariffs and Dividents Control Reserve". His assessment of the credit due to the fund should prevail subject only to an appeal being provided to Government or to an Advisory Board when it is next appointed by Government.

9. The first point of difference that is likely to arise between an undertaking and the checking authority mentioned in the previous para, will be regarding the cost of the Fixed Assets on which the calculation of a reasonable return depends. As recognised in the comment on paragraph 1(A) in para 6 of the explanatory notes, it is a fact that the original cost of the fixed assets as shown in the books of many of the undertakings cannot now be taken as correct, and a through scrutiny of the accounts of construction is necessary and most probably, a valuation will have to be undertaken. In many cases, as has been repeatedly pointed out in audit, unduly heavy proportions of revenue expenditure have been capitalised and the acquisitions of the assets made in a manner not calculated to avoid the suspicion that they were not made in the most economical manner. Again, assets have been revalued and the revalued figures have been taken into account. Some undertakings have revised the figures on objections raised during the audit of the annual statement of accounts and other undertakings have so far resisted attempts to have the costs of the assets in their books adjusted to represent the reasonable figures consistent with the proper allocation of expenditure. At present neither Government nor the Government Auditor has got power to enforce a correction of the accounts. Under .....

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Under clause II of the Schedule, the relevant portion of the audiotrs report is appended to the annual statements of accounts and forms part of it. In refractory cases, the undertakings are told that their accounts have not been accepted as correct and that they must be prepared to take the consequences of an Advisory Board considering an independent valuation of their assets necessary when the time arises for consideration of rates.

10. Para 1(a) defining "cost" proceeds on correct lines by stating unequivocally that what will be taken into account is the " Original cost to the undertaking " and not "replacement value ", " market value", or "value by inspection" etc. But it or the explanation regarding it has to be more specific that the "original value" as given by the books of the undertakingking need not necessarily be accepted as final by the authority entrusted with the enforcement of these "Recommended Principles". Again it uses the word "undertaking" which is nowhere defined and might probably require to be. What the Government and consumers are concerned with and on which return can be expected is the money actually invested, (cash depreciation) on assets useful and used for the supply of energy. If a licensee sells the undertaking to another and the latter pays a considerable amount in excess of the "Original value of the assets less accrued depreciation" before sale, the excess paid will not be taken into account in the calculation. Vice Versa, if the original licensee sole at a loss, the reduced cost to the purchaser should be ignored and it is desirable that an authoritative statement on this point should be available. Just as an incorporated company has an existence independent of its individual shareholders, an "undertaking" has an existence apart from the licensees, Managing Agents, or shareholders and other investors. The 'undertaking' consists of the several assets acquired from time to time for the supply and independently of the vicissitude of the ownership .....

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ownership and the amounts paid and taken for it, it continues and is valued at "original cost less depreciation "). The importance of this point is that under the 'Recommended Principles' there will not be only a pro-forma calculations of a surplus (the details of which calculation are not communicated to the undertaking) but the surplus will be calculated and the undertaking asked to set aside two-thirds into a reserve. Naturally all the details will be scrutinised by the undertaking and questions arised inter alia as to how the 'cost' was arrived at and why.

11. Once the original cost of the fixed assets of an undertaking has been determined as on a certain date and agreed upon by the regulating authority and the undertaking, it ought to be a simple matter to arrive at the agreed cost of the additions every year and the cost of the assets written off. But here again, disputes may arise.

12. The next important point is regarding the definition of the term "Standard Rate" in para 1(e). Under the impression that there is no necessity for a body like an Advisory Board and to avoid having to entrust to such a body the determination of a suitable return for each undertaking after considering all its circumstances for example, its size, stage of development, situation, history of financing and capitalisation etc., a "Standard Rate" has been specified in para 1(e) that is applicable to all undertakings irrespective of their circumstances. This is something of a Procrustean bed. Obviously, the rates of return suitable for undertakings like Tata Hydro, Andhra Valley, Tata Power, B.E.S.T., Ahmedabad, Poona and Sholapur Electric Supply Undertakings cannot be applied to struggling undertakings like Anand, Wai and Mahabaleshwar. A rate of return extravagant for well settled and prosperous concerns with a large varied demand with a good load factor would be insufficient for less fortunate concerns, though there would always be an upper limit to the rate of return that can be expected by any undertaking, as the rates for current cannot exceed the economic limits dictated by the law of supply and demand e.g. alternative methods of supply of power by use of diesel oil and the ability of the community to pay. If a concern cannot be made to pay even by charging reasonably high rates for current e.g. 8 to 10 annas a unit, there is no possibility that it can ever pay. Charging higher rates might reduce consumption and increase the loss. Such calculations cannot be reduced to rule of thumb. The immediate effect of promulgating the "Recommended Principles" with the definition of "Standard Rate" as it stands would be a further sudden rise in the prices of shares of the fortunate undertakings. The other undertakings will be forced out of existence as even the Managing Agents will not be interested in running them, as their remuneration will be

reduced .....

reduced considerably, and as the share-holders will probably have no prospect of dividends for several years as full depreciation has to be provide before dividends can be declared, vide paras 11 & 14. Cpital would probably become more shy of investment in smaller public utilities and there will be heavy pressure for investment in the bigger and prosperous utilities. As elsewhere, what should be done is that the general principles that should guide the regulating Committee or Board in arriving at the rates of return suitable to particular cases should be laid down, leaving it to the regulating authority to determine the specific rates, and avoiding possibility of injustice to undertakings by the selection of suitable members to the authority. There might be great benefit also in defining "Standard rate" so as to specify a minumum rate of return to which all undertakings will be entitled, though Advisory Boards might take higher rates if the circumstances of particular undertakings require. The Bombay Advisory Boards took nosmally 6% as the rate of return but in certain cases too 7½%.

13. Another provision of importance which appears to require revision is that regarding the constitution of Committees in paras 17 & 19. The provision that one of the members nominated by Government " shall be a registered accountant " is open to objection and I suggest should be deleted. Such accountants should, if they wish, appear as witnesses before the Committees as is the practice with reference to the Bombay Advisory Committees & Boards. The Electrical Engineer and the Accountant General of the Province (or his representative) should be two of the members. Two

other .....

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other members can be representatives of the local electric licensees ' association and of the local chamber of commerce. Registred Accountants, representatives of the undertaking, consumers and any other persons interested may appear as witnesses to press their particular points of view before the committee. The interest of the undertakings will presumably be further elucidited by the two members of the Committee representating the commercial interests. With the Electrical Engineer and the Accountant General, who are not interested in pressing any particular side of the case and who can be relied on to present a just view of the position, and the president having judicial training to adjudicate on the points involved, the undertakings should not fear that any injustice will be done to them. It is suggested that paras 17 & 19 should be amended with reference to the suggestions above.

14. In the explanatory notes it is stated that considerable apprehension has arisen in the minds of the investing public and the Electric Supply Undertakings as a result of the present method of control. The Annexure whichgives the market prices of several important undertakings in the Bombay Province on several dates, does not appear to indicate such an apprehension. The shares of the Ahmedabad Electric, Tata Power, Andhra Valley, Tata Hydro and such other undertakings are at prices which are about twice their par value and in the case of Poona Electric at about thrice its par value. Even the shares of certain of the undertakings which have provided little or no depreciation in the past, and the managing agents of which have got a reputation of being somewhat intent upon drawing the maximum they could as managing agency remuneration and allowances, are having their shares

quoted .....

quoted considerably above par and the market value of these shares have resisted fall, while the prices of other shares were falling. It is true that in certain other concerns the investors have been naturally shy of investing, but the shyness has been not because of any apprehension on account of Government control. These concerns can never show a satisfactory profit to the shareholders whatever may be the rate of return recognised by Government as suitable and whatever may be the method of calculation. The undertakings have either not been constructed in the most economical manner, or are poorly situated and have no prospects. In such undertakings even the managing agents and their friends do not take more than the minimum necessary of share capital. If they invest any money in the undertakings, it is in the from of debentures or loans carrying fixed interest or as preference shares. In many cases, the ordinary share capital shown against their names is for consideration other than cash, as consideration for transfer of licenses and so on. The investing public understant that public utilities will not be able to declare very large and speculative dividends and that they can expect only steady and moderate returns. The control of Government with reference to rates has not so far been such as to interfere with the earnings of a reasonable return. The evidence on which a state of apprehension is said to exist is not in the file but it appears that any apprehension that there may have been should have been in the minds of some of the managing agents who are most vocal through their licensees' associations. In this connection it may be of interest to note that a Bombay Government circular No. P.W. D. 2581/36-EL., dated 28-2-1944.

containing .....

containing very modest suggestions to see that the accounts are correctly maintained, has not been welcomed by the Association of Electrical undertakings, Bombay Province.

15. Though perhaps there is no occasion for hasty action on the ground of great alarm caused in the minds of the investing public by Government control as at present enforced, it is obviously desirable to standardize the aims and methods of Government control as is sought to be done by the " Recommended Principles " under consideration, so that the public, investors, managing agents and all concerned may know how Government regulation will work and feel assured that it will be reasonable, well considered and just and not act spasmodically, harshly and in adiscriminating and unequal manner.

Government regulation may take several forms and among them are the following:—

(1) Selection of licensees and scrutiny of their proposals before accepting their applications; control of transfer of licenses with special reference to the conditions of transfer.

(2) Standardisation of the license forms laying down the financial conditions that Government want fulfilled; inter alia regarding Managing Agency remuneration, number and remuneration of directors, depreciation and other reserves to be provided, rate of return, valuation of assets for calculating reasonable return, dividends, rates etc.,

(3) Statutory audit of the annual statements of accounts,

(4) Scrutiny of their financial working over a period of years by properly constituted Advisory Boards; framing and publishing the general principles and methods of calculation that should guide the said

D.J.T.

Advisory....

Advisory Boards in their deliberations and their decisions as to the rates to be recommended to Govt.

As regards (1) it is suggested that applications for licenses should be most thoroughly and carefully investigated by an Advisory Board constituted as suggested in para 13 above and that licenses should be granted by Government on the recommendation of the Advisory Board. If the persons applying for licenses have previously been granted licenses, their previous record should be carefully investigated to see that they have been careful, prudent, competent and honest; whether they have shown public spirit in carrying out their duties to the consuming public and their share-holders or whether they have been anxious to draw only their remuneration giving inefficient service at unduly high cost. The record of many of the managing agents in the Bombay Province is particularly unfortunate. They have no engineering knowledge, have no financial reserves, do not employ competent staff, do not keep correct accounts, are prone to debit revenue expenditure to capital and to over-capitalise the undertakings, do not write off sufficient depreciation in the accounts, do not maintain their machines in proper repair and allow their machines to break down to the considerable inconvenience of the public. A case is well- known where the current used to fail half a dozen times in a day, where all the generators except one broke down and where the managing agents' normal activity was to figure in the law courts. Again, several persons who have been granted licenses in the past, have not worked the licenses themselves. They have sold them to other parties for very valuable consideration sometimes amounting to lakhs of ruppes. Government should, I consider, specifically make it known .....

known that in no case will they allow consideration for transfer of license, except actual reasonable cost incurred in organising the undertaking to be supported by vouchers in the calculation of reasonable return.

With respect to items (2) and (4), the "Recommended Principles" are likely to prove of great use. It is suggested that they should be amended in the light of the suggestions in paras above and split up for inclusion in the terms of licences and the directions to Advisory Boards.

As regards (3), the powers of the Government auditor of the statement of accounts should be enlarged vide para 8 above.

16. To summarise - The "Recommended Principles" contain certain good points but will have to be considerably modified and split up for promulgation by suitable methods.

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D.J.T.

ANNEXURE I - Vide para 6:

Form of the Pro-forma Statement generally adopted by the Bombay Advisory Committees & Boards to assess the "Surpluses or deficits" in the working of electric supply undertakings.

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Gross Revenue (A) -			X X X
Less:-			
(i)	Working expenses	(B)	x x x
(ii)	Depreciation	(C)	x x x
(iii)	Agent's remuneration.	(D)	x x x
(iv)	Write off of intangibles.	(E)	x x x
(v)	6% return on net capital block.	(F)	x x x
(vi)	¼% of the net capital block on account of contingent reserve.		
(vii)	2% return on accumulation in the depreciation reserve fund.		x x x
			X X X
Estimated deficit or surplus.			X X X

A - includes revenue from sale of energy and other miscellaneous receipts from supply activities but excluded receipts from non-supply activities such as grinding mills, ice-factory, sale of electric stores etc.

B - excludes depreciation and agent's remuneration and such other special items as writes off of furniture, special expenses, charities etc.

C - @ 12% of gross revenue or at half the income-tax rates whichever is more favourable to the Company.

D- @ 7½% of net profits after allowing for depreciation subject to a minimum of Rs. 350 p.m. in the case of undertakings having a capital of 2 lakhs and over and Rs.200 in the case of smaller companies. In the case of certain big undertakings showing heavy profits only 5% of net profits has been allowed.

E - .....

F - Provides for the write off of intangible expenditure such as preliminary expenses, licenses brokerage etc.

F - The net capital block includes expenditure on assets — (including stores) for the supply activities at the service of the consumers, less the intangibles and depreciation provided to date on these assets. In certain cases more than 6% has been allowed but in no case has a return more than 7½% been taken. Cash & Bank balances are ignored.

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ANNEXURE II - vide para 12:

Name of the Company.	Highest quotations in the period.					March 1943	March 1944.	REMARKS.
	1938 Rs.As.Ps.	1939 Rs.As.Ps.	1940 Rs.As.Ps.	1941 Rs. As.Ps.	1942 Rs.As.Ps.	Rs.As.Ps.	Rs.As.Ps.	
Ahmedabad Electric Supply Co. Ltd.	157-8-0	150-10-0	167-8-0	191-0-0	193-12-0	207-8-0	221-4-0	15,000 ordinary shares of Rs. 100 each issued in 1938 at par for every 4 shares held.
Surat Electric Supply Co. Ltd.	180-0-0	185-0-0	177-0-0	191-0-0	191-4-0	-	201-4-0	5,000 ordinary shares of Rs. 100 each issued in 1939 at the rate of one share at par for every 3 shares held. -do- in 1940 at the rateof one share at par for every 4 shares held.
Bombay Suburban Electric Supply Company, Ltd.	195-0-0.	160-0-0.	165-0-0.	196-0-0.	200-0-0.	200-10-0.	205-0-0.	9,794 ordinary shares of Rs. 100 each in 1943 at the rate of one share at par for every 3 shares held.
Tata Power Co. Ltd.	1,501-4-0	1,410-0-0	1,575-0-0.	1,651-4-0.	1,685-0-0	1,955-0-0.	1,980-0-0.	
Tata Hydro Co.Ltd.	181-4-0	160-8-0.	160-0-0	187-8-0	188-0-0	207-0-0	205-8-0	
Andhra Valley Company, Ltd.	1,735-0-0	1,485-0-0	1,550-0-0	1,885-0-0	1,782-8-0	1,930-0-0	1,872-8-0	5,319 ordinary shares of Rs. 1,000 each in 1941 at one share at par for every 3 shares held.

Copy of Government of Bombay, Public Works Department Circular No. 2581/36-El., dated 28th February 1944.

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Sub: Audit of the Annual Statement of Accounts.

During the course of its examination of the annual statements of accounts of certain Electricity undertakings, audit has noticed that a high percentage of expenditure incurred on salaries and wages of the staff is capitalised irrespective of the volume and importance of the capital works concerned, indicating atendency to inflate the book value of the assets.

2. The arguments advanced by the Companies in justification of the practice are that owing to the difficulty of obtaining trained staff for capital works, when required, it is permanently employed, that their accounts are prepared in conformity with the Companies' laws and are certified by their auditors, and that the capital cost would be more if works are given on contract instead of being carried out departmentally.

3. To say that the salaries and wages capitalised are for the staff kept for capital works implies that the expenditure on salaries and wages has no relation to the actual work done for capital and that, in an extreme case, salaries may be capitalised even though no capital work has been undertaken. This position cannot be accepted. Nor can the fact that the auditors of the accounts of the undertaking appointed by it have not qualified their audit report by any remarks on the allocation of expenditure between revenue and capital be taken as a proof that the allocation has been correctly made.

4. When once the undertakings have reached a stage at which the major capital works have been completed and the undertakings have begun to earn revenue, the correct procedure is to consider the staff as engaged on revenue account and to debit a reasonable proportion of the expenditure to capital taking into account the volume and the importance of the capital works. Moreover, as the companies have to recover the

D.J.T.

actual .....

actual cost of the service lines from consumers it is obligatory on their part to maintain job cost sheets in support of the amounts charged to the consumers and to produce them before statutory audit, if required. This procedure should also be adopted in regard to extension of distribution lines.

5. In the above circumstances time sheets to show the time spent on capital works by the staff should be maintained and the expenditure capitalised accordingly. It is not considered difficult or impracticable to maintain these sheets as in fact these are being maintained by some of the larger undertakings.

6. Certain undertakings seem to be under a misapprehension as regards the utility of a block account suggested by audit. This account is not a duplicate of the ledger accounts of the assets. The ledger accounts show the total progressive capital outlay on the different categories of assets. In the block account on the other hand, are shown the particulars and the history of the individual items that constitute the several categories of assets, e.g. makers No. of machine from whom purchased, date of purchase or construction, the estimated life of the asset. estimated residual value, value of additions and improvements (with the essential details), rate of depreciation, total depreciation provided to date, etc. It will thus be seen that from the Block Account it can be easily ascertained at any time with respect to any asset

what .....

what its original value was, what its present value is, and what provision on account of depreciation has been ~~ex~~ made. It is therefore necessary that a Block Account should be maintained in respect of plant and machinery in the accompanying form. The details of other kinds of assets such as land, buildings, etc., should also be written up in the form with suitable alterations.

7. As required by the statutory form of statement IV in Annexure V to the Indian Electricity Rules, 1937, provision for depreciation should be made for each asset separately and not on a lump sum basis. This provision should be based on the life of an asset as estimated by a competent authority (e.g. an Electrical Engineer), and the total depreciable cost (i.e. original value minus estimated residual value) should be written off over the estimated life. It is not feasible to lay down what exactly should be the percentage of depreciation for each class of assets but it is considered that about 3 to 3½ percent of the depreciable value would be near the correct rate of depreciation on the whole value of the assets.

8. Some undertakings value the stores issued for capital works at market rates when these rates are higher than cost price, and at cost when market rates are lower. The correct procedure is that the stores issued should be at cost adding a percentage to cover actual storage charges.

9. The statutory forms of the annual statement of accounts provide for the actual amount expended on service connections being shown in "Statement No. III-Capital Account" and for the amounts received in "Statement No. IV-Revenue Account" It is considered that the procedure described below would exhibit the transactions more correctly while not being opposed to the requirements of the statutory form. It is therefore requested that in future both the receipts and the expenditure under this head should be accounted for in the "Statement No. III-Capital Account" in the form of a foot-note as under, no amount being shown no the receipt side in statement No. IV, and only the net expenditure being shown in the body of "Statement.

D.J.T.

"Statement No. III-Capital Account".

Particulars of Receipts and expenses
on account of service connections for (Year)

Total expenditure for the year Rs.

Less: ~~Receipts~~ Receipts on account of Rs.

(a) Connection fees.

(b) Cost of materials, labour etc., recovered from the consumers.

(c) Value of old assets removed and written off.

Nett expenditure incurred for service connections laid during the year -

10. It is suggested that the requirements of the statutory audit should be complied with promptly. Otherwise Government will be compelled not to accept as correct the figures of capital expenditure as shown in the annual statement of accounts of the undertaking with the consequent disadvantages to it, e.g. when an Advisory Board is constituted to examine the maxima rates of supply of energy or when a transfer of a license is under consideration an independent valuation of assets, apart from the book-value, will have to be made causing delay and expenditure.

True Copy.

Id/-

for Supdt. O.A.D.

HISTORY SHEET.

Item No.

Particulars of Assets.

From whom purchased.

Maker's No.

Date of purchase or construction.

Original cost.

Value on -

Estimated further working life.

Estimated residual value.

Rate of Depreciation.

Year.	Value on 1st April	Additions	Total	Depreciation for the year	Value on 31st March	Remarks.
1	2	3	4	5	6	7

D.J.T.

Note by the Electrical Engineer to Government, P.W.D., Bombay, on the draft "Recommended Principles for the control of Public Utility Electric Supply Finance" dated 28th June 1944, forwarded by the Electrical Commissioner with the Government of India.

It was realised some years ago that an independent check other than the licensees' own auditors was necessary, in order to ascertain the actual condition of the Supply Companies' finances, and Government of the Schedule to the Indian, Electricity Act, 1910, to be implemented. In order that Government should not be out of pocket on account of the cost of the audit a scale of audit fees to be charged to each licensee was laid down, and since 1939 the annual audit of the licensees' accounts have been carried out with beneficial effect to both the licensees and Government, in that Government now have an accredited record of each Supply Company's financial condition: and those licensees who previously kept their accounts in a very-hap-hazard condition, now have a guiding hand in the Examiner, Outside Audit, and his staff.

2. The annual audit carried out under Clause II of the Schedule of the Indian Electricity Act has been working satisfactorily since its inception. The licensees are duly informed of the shortcomings found in their accounts and requested to rectify the same. There is at present correspondence with certain licensees regarding a particular procedure....

D.J.T.

procedure they were requested to adopt. Section 11 of the Indian Electricity Act, 1910, lays down that licensees shall prepare and submit a statement of their accounts as may be prescribed, but Government are not empowered to particularly enforce any special procedure, unless the same is included in the license. The only hold that Government can exercise in this respect is a recommendation to any Advisory Board that may be appointed to inquire into the "Maxima charges", to take into consideration the licensees' method of finance, which in the case at present under discussion, inflates the capital by charging wages, which should rightly be debited to maintenance.

3. I entirely agree with the Examin Outside Audit, that the proposed "principles" which could not be applied to the existing licenses, but only be made applicable after revision to the forthcoming licensees, would cause friction between the licensees and Government, and would not give the result aimed at; neither Government, nor the licensees, nor the consumers, would derive any special benefit from the "control". para. 17 of the "Recommended Principles" (page 7) allows for the appointment of a Committee after a period of 3 years from the commencement of the license. It has been found from many years' experience of the various Supply Companies in the Bombay Province that it takes a licensee from 5 to 7 years to "get going"; for the first 3 years, the majority of the Companies are run at a loss, and I consider that the period

of 7 .....

of 7 years laid down in Clause II of the Schedule to the Indian Electricity Act as the minimum time that an inquiry can be made into the rates of a licensee.

4. I am of opnion that, if Clauses II and XI of the Schedule to the Indian Electricity Act are properly implemented on similar lines to those already operating in the Bombay Province, the desired result aimed at in the "recommended principles" can be achieved by other Provinces who are not operating Clause II of the Schedule, with harmony and justice. Had the author of the "recommended principles" inquired into the working of Clauses II and XI from the Provinces, with special reference to the Bombay Province, I am sure he would have been saved from some of the many pitfalls with which the "recommended Principles" abound.

5. The "recommended principles" as the Examiner, Outside Audit, remarks contain some good points which can be adopted in the Bombay Province and incorporated in future licenses.

Id/-

Electrical Engineer to Govt.

Copy of letter No. GEL. 22/44/10, dated Shillong, the 29th August, 1944 from H.G. Dennehy, Esqr., C.S.I., C.I.E., I.C.S., Chief Secretary to the Government of Assam, General & Judicial Department, Electricity Branch to the Electrical Commissioner with the Government of India, 4, Hastings' Street, Calcutta.

Sub:— Public Utility Electric Supply Finance.

With reference to your letter No. FI. C. 2/(E)-O., dated the 7th/9th August, 1944, I am directed to say that the Government of Assam generally accept the draft recommended principles for the control of Public Utility Electric Supply Finance. They consider that the provisions relating to "Reserve" and "Depreciation" may be helpful to the licensees in this province but as the latter are at present handicapped by inability to tackle these two aspects of the matter fairly and efficiently it is desirable that the need for investing such funds outside the business should be much more firmly brought out, if indeed it is not possible to make investment outside compulsory. I am to forward for your information a copy of a note written by Mr. G.W. Glass (Retired Comptroller, Assam) commenting on the accountancy aspect of the draft. This Government are of the opinion that his suggestions deserve consideration.

Sd/-

for Chief Secretary to Government.

Copy of Note by Mr. G.W. Glass.

D.J.T.

Chief Secretary.

The following are my comments but if audit aspects are included they are not due to any doliberate intention on my part of doviting from your instruction, Accountancy and audit are, as you know, inseparable.

Para 1 (a). The definition of 'Cost' normally applies to costs of production or construction only. In practical accountancy however overhead costs are not usually added to assets acquired by purchase. This is because of the danger of inflation and the resulting increse in recurring interest charges for which the consumer would have to pay ultimately.

Para 1. (c) Expenditure incurred on (4) "Interest on borrowed money"

It would be advisable to mention debenture interest as well in view of the fact that Joint Stock Companies are empowered to issue loans in the form of Debenture Capital in cases where they want to borrow more than the amounts usually available from bank over-drafts. etc.

Para 1.(c) - Expenditure incurred in (12) - Write-down of previous loses etc. The write-down of previous losses appears to be a legitimate charge against the Contingency Reserve (D) as defined in para 6(a), and therefore separate appropriation from profits would hardly seem justifiable from a Public Auditor's standpoint.

Para 1(d)- The inclusion of intangible assets in "Capital" employed would not be intelligible to the small licensees and there would be the danger of his taking into account fictitious assets other than the customary Good-will, Under-writers Commission and Preliminary Expenses. Such assets should be written of to revenue over a short period of years, generally three to five years, though there is no legal compulsion to do so.

Para 1(f) 1(iii) - Here also mention should be made of Debenture Capital.

Para 1(f) 1(vii) - The words "and proposed" should be inserted in line 2 between 'unclaimed' and 'dividends'.

Para 1(f) 2(i) - Add the words "except the yield on Depreciation Sinking Funds investments".

Note on Sub-paras 1(f) 1(i) and (iv) (a). It is assumed that the Committee willx not overlook the danger of inflating profits if writes-back of depreciation are resorted to. Normally no write-back is allowed in commercial concerns unless it is supported by a 'bona fide' valuation by an outside valuer. This measure of prudence cannot be over-stressed where small licensees are concerned.

Para 6(b) - As 'replacement 'or 'renewal' means the same thing the retention of the words 'or renewal' would only confuse matters.

Para 6(c) - From an Auditor's angle I would object to compensations imposed by statute not being a direct charges against revenue. Surely a payment which has the force of law behind it, should not be contingent upon the availability of reserves.

Para 7. Depreciation Sinking Fund Method. A Sinking Fund by itself is useless unless the amounts retained for depreciation are invested outside the business so as to make certain that the cash necessary for replacing the assets will be available. In such cases the interest on investments is not an expenses from revenue at all. The draft para as it stands, is incorrect. It does not ~~xkk~~ follow that the existence of a Sinking Fund alone ensures that adequate cash would be availabe at the right time for in practice, commonly, it is found that funds representing depreciation provisions have become locked up in the general assets of the business and are not available. Therefore where small licensees are concerned the with-drawal or investment of amounts set aside for depreciation outside the business should be enforced in the interests of the consumers. Failing this, the Straight-line method would be simpler to use. It must, however, be remembered that 'depreciation' is resorted to as a measure of business prudence only. It has not the force of law behing it.

D.J.T.

Para 8 .....

Para 8 Second Sentence. The injunction that allowance for depreciation on an asset should continue notwithstanding that it may have been sold or disposed of is contrary to all accounting principles. If an asset is disposed of, it ceases to exist and therefore no question of depreciating a fictitious asset could possibly arise. An auditor would be bound to report on such an irregularity on practice.

If a capital asset is sold or disposed of the net cost standing in the books, i.e. after deducting the sale proceeds or scrap value should be written of as a direct revenue expense or alternatively as a charge against the proposed 'Contingencies Reserve B'. This, after all, is but correct for if a profit on the sale of an asset is credited to revenue surely it would be illogical not to charge a m loss to the same account.

Para 13. The principle laid down in this para violates commercial principles. The service lines referred to here presumably means the wiring installed in consumers houses at their own cost. If this is the case, it is a legitimate revenue receipt and should be shown as such in the Revenue Account. This practice is already being followed by the licensees in this province according to the information given me by Mr. Allsup and I've satisfied myself that this is the case by examining the published annual accounts of the Sylhet Electric Supply Co.

Sd/- G.W. Glass.

16/8/44.

(COPY)

Office of the Electrical & Commissioner

with the Government of India.

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Notes on the Comments of Mr. G.W. Clabbe.

Para 1(a). - It is of course realised that there would be danger of inflation of the value of assets if unlimited overheads were permitted, and for this reason the word "reasonable" was incorporated. It is, in our experience, a commonly accepted principle of "Utility" financing to charge the relative pay of labour, and something for the time of supervisory staff, to the original cost of plant which is erected departmentally, and this we think is quite justifiable. After all the principle is the same as when a contract for erection is given to the manufacturers of the plant (as is often the case), and such charges are then of course included in the cost. The principle also seems to be recognised at page 280 item (c) of the Indian Income-Tax Manual.

Para 4 (c). - Expenditure incurred on "4(4) interest on borrowed money" . - It is our understanding that whenever "Borrowed capital" of "borrowed money" is used in the Indian Income-Tax Act and the Excess profits Tax Act, the expression includes "debenture capital".

However we agree that ambiguities must be avoided whenever possible and propose that

1) Expenditure incured on "(4) Interest on borrowed money", should be split to read "(4) Interest on Debenture Capital" and "(4) (a) Interest on other borrowed money". ("Debentured Capital" is defined in para 1(j).)

2) Para 1(f)1(iii) may be amended to read "(iii) the amount of debenture capital and other borrowed money, including interest accrued and accruing but unpaid;".

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D.J.T.

Considering .....

Considering the point raised has brought to attention the probable desirability of a further amendment in Clause 1(f) (2) namely that sub-section (ii) of this Clause should be amended to substitute only the words "Debenture Capital" for "Borrowed Money". This has further significance as it will be observed that we now propose to omit the words "and other borrowed money" referred to above,. In the "Explanatory Notes" on para 1(f), accompanying the Draft Principles, reasons are given for permitting an Undertaking an equity in benefit resulting from borrowing at cheap rates, but these reasons do not apply with the same force to "Unsecured" borrowings,. Not only is no "Charge" upon the assets of the Undertaking created in this latter case, but such borrowing is frequently short-term, and the amount and the rate may vary repeatedly during the course of the year making it difficult to apply a formula for assessing benefits. Furthermore the possibility should not be overlooked that, if the present wording stands, and undertaking might have recourse to excessive "unsecured" borrowing which could be repaid before making up the accounts of the year, solely with an eye to increasing the Undertaking's equity. It is therefore now considered that it would be prudent to containe the equity to such benefit as results from low rates of interest on "debenture capital" as defined, and with respect to which capital such financial manipulation would be scarcely practicable. With the revised wording, only the actual interest payable on "unsecured" borrowing will be admissible in computing the "fair return", but to avoid the possibility of disreputable directors or agents' lending at excessive rates at the expense of consumers, we feel it is further desirable to add the following words in expenditure incurred on "(4)(a) interest on other borrowed money", namely:- .....

namely:- "not exceeding, without the permission of the Provincial Government, such amount as would have been payble had the money been borrowed at the standard rate less 3½%.

Para 6(a). - Here again the wording used conforms exactly to that in the Third Schedule to the abovementioned Act. It is felt that there is no objection to this provision, since such a payment is not necessarily contingent upon the availability of reserves as stated. If there were no suitable reserve available the expenses would have to be met either from insurance or from revenue, and insurance premia, or such expenses, would be admissible in computing the "clear profits".

Para 7. - Depreciation Sinking Fund Method.- It might have been better to have avoided the use of the word "fund" and to have substituted something like "compound interest method". We feel that such a method has the advantages described in the "Note" in para 7 of the Draft Principles, although these may not be particularly significant in practice for the reasons mentioned in the next paragraph of that note on the subject of the "straight line method". As to the necessity for investment of accurued depreciation outside the business, we are of the opinion that it is not generally desirable in the case of public utility concerns. We have stated in the remarks against paragraph 1(d) that the stability of a public utility concern should be much greater than that of an industrial trading concern. It seems only right therefore that, generally speaking, the best use of accured depreciation monies should be made of them by re-investing them in the business. This should not affect the ability of an undertaking, to raise fresh money for replacements when its depreciationis so looked up, as the credit of the undertaking should not thereby be affected, particularly if, as is proposed in para 4 of the "Recommended Principles" investment of a reasonable amount of Contingencies Reserve "B" is made in Government Securities.

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The return on invested depreciation is proposed to be a credit to revenue whether the principal is invested within or without the business (see remarks on para 1(f) 2(i)), and therefore, for purposes of the sinking fund (compound interest) method, the interest components of the annual "write off" must also be admitted as an expense, otherwise excess over the "reasonable return" might occur to that extent. Here again there is no law at present, but we are seeking to arrive at a base for control.

Para 8 Second Sentence. - The object of the proposal made in the "Recommended Principles" is to achieve grandual "ammortisation" of the value of a useless asset. This might, if necessary, be made clearer. The reason for desiring grandual ammortisation is the same as that mentioned in the remarks against para 1(d). If, as has sometimes happened due to obsolescence, a large block of plant has to be laid off, and perhaps sold at a price much below its depreciated value, it would seem to be unfair to present consumers that the full amount remaining underpreciated should be at once written off from revenue. It might however also be considered whether, at the end of para 8, the following words should be added - "Provided further that if the Provincial Government so directs, the written down cost shall be reduced by an appropriation from Contingency Reserve "B" of such amount as the Provincial Government may determine". Profit on sale of fixed assets may then, it is suggested, be credited to E Contingencies Reserve "B" instead of to revenue.

Para 13. - "Service Lines" are the lines through which a licensee supplies energy to a consumer from a a "distributing main". We cannot agree that the proposal violates commercial principles, for reasons given in the "Explanatory Notes" on para 13.

If the ..... D.J.T.

If the service lines paid for by consumers clearly remained their porperty it would be different matter, in both the Capital and Revenue accounts. As it is, however, undertakings frequently do this; whereas if they are compelled, as proposed, to use consumers' payments to write down the capital value of such assets, this inequity will be ended.

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KCM/Sks:

D.J.T.

NOT FOR PUBLICATION.

DRAFT : Dated 26.6.1944.

Government of India

Department of Supply

Office of the Electrical Commissioner.

Revised 7-9-44.

Recommended Principles for the Control of Public Utility Electric Supply Finance.

1. In these conditions:—

(a) "Cost" means :-

In respect of any asset, the original cost to the undertaking, including, where applicable, the costs of delivery and a reasonable addition on account of the pay of labour and the time of supervisory staff who erect the asset and make it available for use.

(b) "Written down cost" means:-

Cost less the amount written off in the books of the undertaking.

(c) "Clear profits" means:-

The difference between (a) income and (b) expenditure together with specific appropriations, made up as follows:-

Income derived from :-

(1) Gross receipts from sale of energy, less discounts applicable thereto;

(2) Rental of meters and other apparatus on consumers' premises;

(3) Sale and repair of lamps and apparatus;

(4) Rents, less outgoings not otherwise provided for;

(5) Transfer fees;

(6) Investments, fixed and call deposits, and bank balances;

(7) Other general receipts accountable in the assessment of Indian income tax and

D.J.T. arising...

arising from the business of electric supply;

Expenditure incurred on -

(1) Generation or purchase of energy;

(2) Distribution and sales of energy;

(3) Rents, rates and taxes (mother than taxes on income payable to the Government of India);

(4) Interest on Debentare Capital;

(4a) Interest on other borrowed money, not exceeding without the permission of the Provinces of Govt., such amount as would have been payable had the money been borrowed at the standard rate less 3½% .

(5) Interest on security deposits;

(6) Legal charges;

(7) Bad debts;

(8) Auditors' fees;

(9) Management;

(10) Depreciation, computed as hereinafter set out;

(11) Other expenses admissible in the assessment of Indian income tax and arising from the business of electric supply;

Special appropriations sufficient to cover -

(12) Write down of previous losses arising from the business of electric supply, to the extent in any year actually appropriated for the purpose;

(13) Corporation Super-tax payable to the Government of India;

(14) New Capital issue expenses;

(15) Dismantling charges;

(16) .....

(16) Write down of intangible assets, to the extent in any year actually appropriated for the purpose but not exceeding an amount found by dividing the written down costs of such assets by the number of complete years remaining unexpired before the first option of purchase under the license;

(17) Dividends due on preference share capital not exceeding without the permission of the Provincial Govt., such amount as would have been payable had the dividends been due at the standard rate;

(18) Contributions to Contingency Reserve ("B), computed as hereinafter set out;

(d) "Capital employed" means:—

The cost of fixed assets required in the business of electric supply, fairly acquired and available for use;

plus,

the cost of intangible assets, fairly arisen in promoting the business of electric supply;

plus,

the cost of works in progress, stores, tools, and instruments, necessary for the business of electric supply;

plus,

Working capital, including, the amoung of sundry debtors and payments in advance, investments, fixed and call deposits, bank balances, and cash on hand;

(e) "Standard Rate" means:-

In respect of any accounting year, Reserve Bank Rate at the Commencement of that year;

plus,

(i) In the case of undertakings less than 10 years old, 6½% ;

(ii) In any other case, 4½%.

(f) "Reasonable Return" means :-

In respect of any accounting year,

1) the amount found by ..... Please See from ****

(i) the amount written off in the books of the undertakings as at the last day of its accounting year ended in 1943, plus the amount so written off thereafter;

***** 1) the amount found by applying the standard rate to the amount of capital employed at the end of that year after deducting -

(ii) the amount of preference share capital;

(iii) the amount of debenture Capital and other borrowed money, including interest accrued and accruing but unpaid;

(iv) (a) the amount by which reserves, whether capitalised or not, exceeded 10% of the written down cost of fixed assets employed in the business of electric supply as at the last day of the undertaking's accounting year ended in 1943 and,

(b) the amount by which "Contingencied Reserve ("B")" falls shorb of 5% of the written down cost of fixed assets employed in the business of electric supply or of the amount of other reserves, whichever is less:

Provided that, in computing the amount of such reserves, premia received on share capital and the amount written off in the books of the undertaking vide (i) above, shall be left out of account;

(v) the amount of profits available for disposal, (not being included under item (iv) above);

(vi) the amount of receipts in advance, and service and security deposits from consumers and others;

(vii) the amount of debts of the undertaking

..... (including .....

(including for taxation), unclaimed dividend and liabilities for other finance;

(viii) investments;

(ix) working capital; including, fixed and call deposits, bank balances and cash on hand; to the extent that such working capital exceeds 1½% of the written down cost of fixed assets employed in the business of electric supply;

plus,

2) the sum of the following:—

(i) the income derived from investments;

(ii) half the difference between the interest payable on debenture capital and such greater amount as would have been payable had to the money been borrowed at the standard rate;

Note on sub-paragraphs 1(f)1(i) & (iv) (a) :-

The following cases (to treat them as particular examples) might, if they should arise, possibly be important enough to justify a reference to a Committee, appointed in terms of paragraph 19 hereof, to determine if any special relaxation of these conditions is warranted in respect of the undertakings concerned :-

(1) A claim that some of the depreciation written off in the books of the undertaking as at the last day of its accounting year ended in 1943, should be written back; and/or

(2) A claim that reserves etc. in excess of 10% of the written down cost of fixed assets as at the last day of the undertaking's accounting year ended in 1943, should not, to some or all extent, be deducted from the capital employed.

In such cases it would almost certainly be necessary for the undertaking concerned to show,

inter alia, that the amount so claimed for admission to calculation in assessing the "reasonable return" has been found from reasonable profits in the past and not out of excessive charges to consumers.

(g) The "prescribed period" means :—

in respect of each of the assets mentioned in Schedule A hereto, the number of years or period specified in relation to such asset, in each case from the commencement of the accounting year next following that in which the particular asset became available for use in the business.

(h) "Share Capital" means:—

share, stock or bond capital, issued; subscribed and called up.

(j) "Debenture capital" means :-

Capital raised against debentures or other instruments creating a charge or lien on the assets of the undertaking.

(k) "Intangible assets" means :-

Good will, under writer's Commission, preliminary and promotional expenditure debited in the Capital account of an undertaking.

2. If the clear profits of an electric supply licensee's undertaking in an accounting year are in excess of that amount which affords a reasonable return, two-thirds of the excess shall be carried to a reserve ("A") styled "Tariffs and Dividends Control Reserve". The balance of the clear profits shall be available at the disposal of the undertaking.

3. Tariff and Dividends Control Reserve ("A") shall at no time exceed one third part of the amount of the reasonable return. This reserve shall be available for disposal by the undertaking only to the extent in any year by which the clear profits are less than the reasonable return. Any balance of this reserve on purchase of the undertaking under the license shall, after deducting such amount as would have

. . .

been due .....

been due there on for Indian Income Tax had the said balance formed part of the profits of the previous year, be handed over to the purchaser or be deducted in assessing the value of the undertaking for purchase.

4. There shall be created from existing reserves or from the revenues of the undertaking a reserve "B" styled "Contingencies Reserve" not exceeding in amount 5% of the written down cost of fixed assets employed in the business of electirc supply. The amount of this reserve or the first Rs. 1 lakh thereof, whichever is the less, shall be invested in Government securities.

5. Subject as hereinafter provided, there shall be appropriated to Contingencies Reserve "B" from the revenues of each year a sum equivalent to one quarter of one percent of the written down cost of fixed assets employed in the business of electric supply. Provided however, that if the said reserve amounts, or would by such credit be caused to amount, to five per cent of the said written down cost, or if clear profits in the year are less than one per cent of such cost, no such sum shall be credited as aforesaid.

6. Contingencies Reserve "B" shall not be drawn upon during the currency of the undertaking's license expet to meet such charges as an accountant appointed for the purpose by Government shall approved as being -

(a) Expenses or loss of profits arising out of accidents, strikes or circumstances which due care and management could not have prevented;

(b) Expenses of replacement or removal of plant or works other than expenses requisite for maintenance or renewal;

(c) Compensation to officers, servents, etc. imposed by statute and not otherwise provided for.

7. There shall be allowed each year in respect of depreciation of fixed assets employed in the business of electric supply such amount as will, after taking into account the sums already written off in the books of the undertaking, contribute sufficiently in accordance with a recognised method of depreciation towards the ultimate extinction from the balance sheet of the cost of each asset at the end of the prescribed period. The year in which any asset or assets became available for use in the business and/or the relative cost thereof shall, in the absence of satisfactory record, be agreed with the Provincial Government.

Note :- Methods of depreciation accounting recognised for purposes of these conditions are :-
(a) Straight line, or (b) Compound interest

That a licensee may have charged the system of depreciation accounting in respect of his undertaking once or more in the past is not material so long as an approved system is adopted in the future which, taking account of the amount already written off in his books, is designed to result in the extinction of the cost of each asset from the balance sheet at the end of its assessed life. If the compound interest method is in use interest on the accumulated balance will be allowed as an expense from revenue as well as the incremental deposit, both being component parts of the rate of depreciation under this method.

The Compound interest method favours new enterprise in its early stage, as the interest on the accured depreciation reserve (which is to be met from revenue) is small to begin with. It is also likely to opreate equitably upon consumers, as maintenance charges and interest contributions from revenue to the reserve should, when rising with the age of the assets, be off-set by reductions in costs.....

in costs due to other development.

The Straight line method, in the case of an established and expanding undertaking, is likely in practice to have results not greatly different from those of the Compound interest system. This method has in addition the advantage of accounting simplicity.

The reducing balance method is not advocated for public utility electric supply depreciation accounting, as it results in burdening new enterprise with heavy costs out of all propertion to the saving in maintenance charges on the new plant; this being neither good for the undertaking nor fair to the early consumers (who may not be the same parties as those who are consumers when the plant has become older). Further more the value of the asset can never be completely extinguished. It is accordingly not recognised for purposes of these conditions.

8. Where any fixed asset ceases to be available for the through obsolescence, inadequncy, superfluity or otherwise, it shall be described in the books of the undertaking as no longer in use, but for purposes of these conditions it shall be deemed to be available for use until its cost is fully written off in the books of the undertaking. Allowance for depreciation shall continue as if such asset were still in service, notwithstanding that it may have been sold or disposed of, but its written down cost shall be decreased by the amount for which it is actually sold or by the amount of its scrap value. Provided that if in any such case the first option of purchase under the license occurs before the expiration of the prescribed period then such allowance shall be calculated as if the end of the prescribed period were the date of the first option of purchase as aforesaid. Provided further that if the Provincial Govt. so direct, the written down cost shall be reduced by an appropriation from contingencies Reserve "B" of such amount as the Provincial Govt. may determine.

9. When any asset is ~~fully~~ fully written off in the books of the undertaking no further depreciation thereon shall be allowed.

10. When any fixed asset is sold for an amount exceeding its written down cost the excess shall be credited to contingencies Reserve "B".

11. No sums shall be carried to a reserve, and no dividends on share capital or other distribution of profits shall be made, ~~shall~~ any sum allowed in respect of depreciation under these condition remains to be written off in the books of the undertaking.

12. Arrears of depreciation allowed under these conditions but remaining to be written off in the books of thex undertaking may be taken into account in any year as an expense for purposes of assessing the clear profits.

13. Receipts on account of service lines paid for by consumers and laid after the date hereof shall not be included in the revenue account for purposes of assessing the clear profits, and only the net cost of such service lines after deducting such receipts shall be included in the cost of fixed assets for purposes of arriving at the capital employed.

14. The remmeration of a managing agent including purchasing commission shall be based upon a percentage of the net profits (as defined in Section 87C of the Indian Companies Act) and shall not exceed :—

(a) In respect of the first Rs. 5 lakhs of such profits 10%

In respect of the next Rs. 10 lakhs of such profits 7%

In respect of the next Rs. 10 lakhs of such profits 4%

In respect of all additional profits 2%

Page 7 .....

Subject to minumum payment, in the case of absence of or inadequacy of profits, not exceeding two rupees per annum for each complete thousand rupees of share and debenture capital

plus,

(b) an office allowance not exceeding the minimum payment as calculated above.

Provided that for purpose of computing the minimum payment should the share and debenture capital be less than Rupees Five lakhs it shall be taken as Rupees five lakhs and should the said capital be greater than Rupees One Crore it shall be taken as Rupees One Crore.

15. A Board of Directors shall not contain more than five persons unless the share and debenture capital exceeds Rupees five lakhs. For each additional Rupees ten lakhs or part thereof there may be added one Director, but so that the total number of Directors does not exceed twelve. The remuneration of a Director shall not exceed-

(a) in the case of the Chairman, Rs.100/- per Board meeting.

(b) in any other case, Rs.75/- per Board meeting.

The expression "remuneration of a director" does not include-

(i) The remuneration of a Director who is required to devote substantially the whole of his time to the service of the undertaking in managerial or technical capacity.

(ii) The remuneration of a managing agent.

16. The Provincial Government may from time to time fix a minimum salary or scale of salaries payable to any person or class of persons employed by the licensee for purpose of his undertaking, and the undertaking shall give effect thereto.

17. Notwithstanding anything contained in any licensee (including the provisions of clause XI of the Schedule to the Indian Electricity Act) the following conditions shall apply:-

(a) If at .....

(a) If at any time after the expiration of three years from the commencemtnt of the license the Provincial Government considers that the licensee's charges for supply of energy should be altered and the licensee refuses to alter them to its satisfaction, it may refer the matter to a Committee and, if the Committee recommends any alteration, the licensee shall give effect thereto for a period of not less than two years. Provided that the Committee shall not make any recommendation which by its effect is calculated to prevent the licensee from earning clear profits sufficient, when taken with the sums available in Tariffs and Dividends Control Reserve ("A") to afford him a reasonable return. The Committee shall publish a report of its findings in the Official Gazette.

(b) The Constitution of the Committee appointed sub-paragraph (a) shall be as follows:-

A chairman and two other members to be nominated by the Provincial Governmentl

One member to be nominated by the licensee.

One member to be nominated by the local electric licensees' association, or failing by such Chamber of Commerce or similar body as the Provincial Government may direct.

Of the three members nominated by the Provincial Governments one shall hold, or have held, a judical position not subordinate to that of High Court Judge; and one shall be a registered Accountant having at least 10 years experience

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of public utility electric supply finance and tariff making.

18. Subsequent to a date 3 years prior to the date of first option of purchase under the license the undertaking shall notify to the Provincial Government its intention of making any capital expenditure (which shall exceed in respect of any individual item a sum of Rs. 50,000/-) in respect whereof any payment may become payable to the undertaking by the purchaser on the expiration of the undertaking's license. If the Provincial Government shall within one month from receiving any such notification inform the undertaking that the Provincial Government objects to the expenditure mentioned therein a difference shall deemed to have arisen between the undertaking and the Provincial Government and such difference shall be determined by the Electrical Commissioner with the Government of India whose decision thereon shall be final.

19. . These conditions shall not be relaxed, revised or modified, except on the advice of a Committee to be constituted as follows:—

A Chariman to be nominated by the Central Government.

Two other members to be nominated by the Central Government in consultation with all Provincial Governments.

One member to be nominated by the Federation of Electricity Undertakings in India.

One member to be nominated by the Associated Chambers of Commerce of India or such other body as the Central Government may direct.

Of the three members nominated by the Central Government one shall hold, or have held, a judicial position not subordinate to that of High Court Judge; and one shall be a registered Accountant having at least 10 years experience of public utility electric supply & finance and tariff making.

20. If a licensee fails to observe these conditions or any of them his license may be revoked.

21. In the event of any difference or dispute at any time arising in regard to the construction of these conditions or any matter arising out of or in connection with these conditions (not being a matterin regard to which a method of determination is hereinbefore prescribed) such dispute or difference shall be referred to the arbitration of two arbitrators - one to be appointed by each party to the dispute or difference which arbitrators shall appoint in writing and umpire before taking upon themselves the burden of the reference, and this reference shall be deemed to be a submission to arbitration within the meaning of the Indian Arbitration Act, 1940 (X of 1940) and all the provisions of that Act (except as hereby expressly varied) or of any Act of the Legislature passed in substitution therefor or in modification thereof and for the time being in force shall apply to any reference hereunder.

SCHEDULE "A".

A S S E T		Number of years or period
Free-hold land	...	Infinity
Lease-hold Land		
i) interest in the land	...	The period of the lease or the period remaining unexpired on the assignment of the lease.
ii) cost of clearing the site	...	The period of the lease remaining unexpriod at the date of clearing the site.
Assets purchased now -		
Building & civil engineering works of a permanent character (other than plant foundations, cooling towers, circulating water systems and hyd--raulic works forming part of a hydro--electric system)-		
i) Offices and show-rooms	...	30
ii) Containing thermo-electric generating plant.	...	20
iii) Contaning hydro-electric generating plant.	...	30
iv) Temporary erections, such as wooden structures.	...	5
v) Other	...	30
Plant or machinery in generating stations (including plant foundations)		
i) Hydro-electric installations	...	30
ii) Steam-electric installations	...	20
iii) Diesel-electric installations	...	15
Cooling towers and circulating water systems	...	20

Hydraulic .....

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ASSET	Number of years or period.
Hydraulic Works forming part of hydro-electric system. ...	
i) Dams, spillways weirs, canals reinforced concrete flumes and syphons ...	60
ii) Reinforced concrete pipelines and surge tanks ...	40
iii) Steel pipelines, sluice gates, steel surge tanks, hydraulic control valves ...	30
Transformers, transformer kiosks, sub-station equipment and other fixed apparatus (including plant foundations) -	
i) Transformers having a rating of 100 kilo-volt amperes and over (including foundations) ...	30
ii) Other ...	20
Switchgear (including cable connections) ...	20
Batteries ...	10
Underground cables (including joint boxes, disconnecting boxes and ducts) ...	40
Overhead lines, including supports -	
i) Lines on steel or reinforced concrete supports - operating at voltage higher than 13.2 Kilo-volts ...	30
ii) Other lines on steel or reinforced concrete supports - ...	25

iii) .....

A S S E T		Number of years or period.
iii) Lines on wood supports	...	20
Meters	...	15
Self-propelled vechiles	...	7
Static Machine Tools	...	20
Air Conditioning Plant -		
i) Static	...	15
ii) Portable	...	7
Office furniture and equipment	...	10
Apparatus let on hire (other than meters)	...	7
Assets not otherwise provided for	...	20
Assets purchased Second-hand	...	Such period as the Provincial Government shall determine in each case having regard to the nature, age and condition of the asset at the time of acquisition by the undertaking.

** *** **

NOT FOR PUBLICATION.

Draft dated 28.6.44.

Government of India

Department of Supply

OFFICE OF THE ELECTRICAL COMMISSIONER.

Revised 7.9.44.

Explanatory Notes on "Recommended Principles for the control of Public Utility Electric Supply Finance".

Measures of control of Electric Utility finance in India have not hitherto been placed upon a standard basis; and in fact attempts which have been made to effect such control on occasions have given rise to considerable apprehension in the minds of the investing public and the electric supply undertakings, owing to the evident lack of uniform principles.

2. The cost of supply to the public is inevitably closely bound up with the cost of raising capital. It is much against the interests of the general public to allow the present state of affairs to continue, as any lack of confidence in the future financial stability of utilities (engendered by a possibility of unpredictable control measures) reflects on their ability to raise money at reasonable rates. This ability is clearly essential if they are to maintain a proper discharge of their public duties and also to permit a healthy growth of electric service in their licensed areas.

3. It is of course recognised that uncertainty as to the terms of compulsory purchase of the undertaking reflects upon the ability of the licensee to raise money at reasonable rates. As however, the terms of compulsory purchase usually incorporated in the licence are governed by definite principles laid down in the Electricity Act, it is not considered that these terms seriously prejudice the necessary confidence.

4. The immediate necessity appears to be for an agreed method of determining a "reasonable return" to investors in electricity supply undertakings, after allowing all the proper expenses of operation, including the payment of interest on loan capital, the setting aside of proper sums for depreciation, and a suitable amount to be passed to the reserve account.

5. The "Recommended Principles for the control of public utility electric supply finance" have been drawn up with these objects in view:—

i) To permit the healthy growth of electric service, where this is carried out by a privately owned public utility undertaking, at the lowest possible rates consistent with the maintence of the credit and a reasonable return on the capital of the undertaking.

ii) To define the reasonable return, check the use of improper financial methods where these exist, and to provide as to the proper creation and employment of reserves, including the depreciation reserves;

iii) to provide that, having defined the "reasonable return", an undertaking's over-all charges for energy will be automatically governed thereby, so that on the one hand these rates cannot be such as to afford an unreasonable or excessive return, and on the other hand the undertaking will be assured that it will not be called upon to supply energy at rates insufficient to cover its operations and to service its capital.

6. Commenting seriatim on the paragraphs of the Principles :—

Paragraph 1 (a). The cost of assets employed in the undertaking forms a fundamental factor in calculations to be made in computing a "reasonable return". It is unfortunate that it does not necessarily follow that the cost shown in the books of the undertaking should be

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fully accepted for the purpose, since cases are known where undertakings have allocated unreasonable amounts of establishment charges to their capital works. A case is even known where an undertaking has increased the value of its fixed assets by allocation of trading losses amongst them. The definition of cost therefore seeks to enable an appropriate adjustment to be made when it becomes evident that this is desirable.

Paragraph 1(b).

i) It is proposed, as will be seen from paragraph 1(f)(i), to deduct the amount written off in the books of the undertaking from the capital employed in calculating the reasonable return, This is because -

(a) the amount has been provided in the cost of service in anticipation of expired value having to be made good at some future date, and,

(b) in the meantime a reasonable return on the original value of the investment is to be secured by the amount of the written down value and the amount written off both being permitted to earn appropriately.

ii) Under these circumstances the "written down cost" must not be computed by reference to any set of standards (such as for instance the Income Tax Standards) different from those actually employed by the undertaking for purposes of its capital account, as it is necessary that only so much of the depreciation as has actually been met from revenue should be deducted. If no depreciation has been met, then nothing should .....

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should be deducted. If half the depreciation has been met, then half should be deducted. If the undertaking has depreciated, from charges to consumers, in excess of the physical depreciation of the assets, it is right that the total capital employed should, for purposes of computing a return to investors, be reduced by the full amount of the depreciation. Consumers do thus receive the benefit from any unexpired utility value of the assets in excess of the value to which they are actually written down in the books of the undertaking, and the investors will continue to receive at all times a fair return on their original investment.

Paragraph 1(c). The definition of "clear profits" includes the full amount of receipts arising from the business of electric supply, less the full amount of expenses properly incurred with certain special appropriations. (In this connection it is necessary to lay down Principles for ascertaining the amount of depreciation which may be allowed as an expense). Amongst the special appropriations will be noted a complusory contribution to a reserve in accordance with the requirements of paragraph 5 of the principles. It will be noted further that the only tax of the nature of Income Tax payable to the Government of India, considered to be admissible as an expense of operation recoverable in the charges for energy to consumers, is Corporation Super-Tax. Other taxes payable to the Government of India are considered to be a charge upon the shareholders, to be paid by them out of the amount of the "reasonable return" allowed to them.

Paragraph 1(d). "Capital employed" by the undertaking relates to all the assets of the undertaking, provided that they are properly employed in the business of

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electric supply and not in some extraneous business. The "reasonable return" is proposed to be based on the capital employed after taking into account the source of the money and the nature of its employment.

Paragraph 1 (e).

i) "Standard Rate"- An undertaking in the first years of its life cannot normally be expected to earn an adequate return on its capital,.Therefore, to assist in providing the public with incentive to invest in new enterprise, which might other-wise be lacking, it is considered reasonable to allow a somewhat higher standard rate to an undertaking less than 10 years old than/older to and more solidly established concerns. Investors would thus have some opportunity to make up in the last part of the first 10 years of operation some of the deficiencies in profits to be expected in the first 5 years.

i) In the case of undertakings 10 years old and over it is felt that, with the security of tenure provided by the acceptance or enactment of these Principles, the return on investment which the public will require to induce them to invest should not, at the present time, exceed 7½% (less Income Tax).

iii) It may be especially noted, however, that a basic return varying with the bank rate has been incorporated in all cases so as authmatically to provide a measure of compensation for any variations in the value of money which may occur from time to time-.

Pragraph 1(f).

i) The definition of the "reasonable return" should secure :-

(a) that the amount of ordinary share capital properly employed in the business, together with a reasonable amount of reserves, can earn a return fairly related to the use to which the money is put and to the requirements of the investment market,

(b) that preference share capital debenture capital and other borrowed money, receive the actual return necessary.

ii) It appears best to achieve these objects by relating the reasonable return to the amount of capital employed less certain deductions, rather than specifically to the actual amount of share capital, reasonable reserves etc., as it is thereby made readily evident how component amounts are dealt with according to the nature of origin and/or employment.

iii) The "standard rate" will, for instance, apply to any component of ordinary share capital properly employed if fixed assets.

iv) Dividents actually due on preference shares are allowed under the definition of "clear profits" as a special appropriation from revenue.

v) Interest on debenture Capital and other borrowed money is allowed as an expense under the definition of "clear profits".

vi) To the extent to which any monies are invested in securities the riturn is limited to the actual amount earned thereby, but a return at the "Standare Rate" is permitted to a limited amount of "Working capital".

vii) An allowance is made of half the difference between the interest payable on debenture capital and such greater amount as would have been payable had the money been borrowed at the

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standard rate. The reason for this is two-fold:-

(a) the lower rate on interest at which such money can be borrowed is due to the shareholders pledging, in effect, part of their own assets, and it seems right that they should have an interest in the benefits resulting. On the principle, however, that fair rates are a balance of interest between the owners and consumers, a less expensive service should spell lower charge for it and therefore half the benefit is given to the shareholders and half to the consumers.

(b) this principle offers an incentive to the management of the undertaking to borrow money at the cheapest rate possible (which is of course to the benefit of consumers).

viii) Similar provision to those relating to borrowed money, as above, should not, it is felt, be applied to dividends on preference shares, for the reason that the ordinary shareholders do not jeopardise any part of their own assets by the issue of preference shares ranking pari passu in liquidation.

ix) It is not proposed normally to permit an undertaking a return upon any sum by which reserves (whether capitalised or not) exceeded a specified reasonable amount as at the last day of the undertaking's accounting year ended in 1943. This is because it is considered that such excess amounts are likely to have been acquired unjustifiably at the expense of consumers in the past. However this latter assumption may not invariably be correct, and a note on the subject (also covering a possibly parallel aspect of depreciation in this respect) has been inserted at the end of paragraph 1(f).

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x) ....

x) The specified reasonable amount of reserves as at the last day of the undertaking's year ended in 1943, mentioned above, is taken as the actual amount of reserves not exceeding 10 percent of the written down cost of fixed assets. An additional sum may be disallowed if opportunity is not taken, after control, to create or maintain Contingency Reserve ("B") as far as possible from existing resources.

xi) The year 1943, mentioned in the preceding paragraphs, is inserted not only as (perhaps) the last year before control prevents the further accumulation of reserves except out of reasonable earnings at the undertaking's disposal, but also to anticipate any possibility that, in the interim, excessive reserves already accumulted might be distributed to shareholders to evade the effects of forthcoming control.

Paragraph 1(g). The life of depreciable assets for purposes of calculating the permissible depreciation has been estimated as closely as possible from experience of the particular requirements of, and factors affecting, the electric supply industry and which are not necessarily common to other industry. It is considered of the outmost importance that principles for computing depreciation allowances should be firmly established.

Paragraph 2&3.

i) These conditions for the establishment of the "Tariffs & Dividends Control Reserve" from one of the key features in the control measures.

ii) It will be appreciated that, (unless charges for energy are to be varied at very frequent intervals which is objectionable), there may (quite properly) be periods during which a surplus will be earned by an undertaking over and above its average return. These are the periods occuring when existing plant has been loaded to its most economic extent, and before rate reductions e-

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the necessity for new plant extensions, with the accompanying fresh capital commitments, affect the return so that a surplus no longer results.

iii) on the other hand, following rates reductions and increased capital commitments there will, also normally, be periods when there will be a deficit from the average return.

iv) Taking the "reasonable return" to represent the average return, it is therefore considered appropriate to set aside two-thirds of the surplus during the former periods, as a reserve to be used in meeting deficits during the latter period.

V) It may be noted that, in effect, consumers receive the benefit of this two-thirds surplus as, when passed to the Tariffs and Dividends Control Reserve, it can only be used by the undertaking to the extent to which equivalent rate reductions or increased capital commitments have reduced profits below the reasonable return.

vi) A limit to the amount of the Tariffs & Dividends Control Reserve has naturally been fixed so as to ensure that surpluses cannot be earned continuously or beyond a reasonable amount, and, as it therefore becomes imperative for the undertaking to reduce its rates to the public if the limit would otherwise be exceeded, full automatic control of the undertaking's total charges is thus achieved.

... The Reserve, then, builds and falls according to the economic conditions of the undertaking; in fact such a reserve is known somewhat loosely, in America, as a "Barometer Fund".

vii) An incentive is provided to the undertaking to promote efficiency and economy of operation by permitting, during the period when a surplus can be earned as above, a small incremental benefit (i.e. the balance one-third surplus) over and above the normal reasonable return.

viii) Any balance standing to the credit of the Tariffs and Dividends Control Reserve on the expiration of the under-takings' license will, having served its purpose of control, inure to the benefit of the purchaser (less an amount to compensate the undertaking for income tax paid thereon in the past).

Paragraphs 4 to 6. It is considered that every undertaking should have, or build up, a reasonable reserve for use only in extraordinary circumstances, and that a basic amount of this reserve should be invested in "gilt-edged" securities.

Paragraph 7. Methods to be adopted in assessing the proper amount of depreciation have been set out at length, and further comment appears unnecessary here.

Paragraph 8. Deals with obsolescence, etc.

Paragraphs 9 & 10. No comment.

Paragraph 11. - A provision to prevent allowances for depreciation being misappropriated.

Paragraphs 12. - The provision appears to be required in the interests of equity.

Paragraph 13 .....

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Paragraph 13. - This is considered to be a necessary condition to ensure that undertakings do not take cridit for service line charges paid for by consumers and also for the service lines so paid for. That they have been able to do so in the past in due to the fact that the Indian Electricity Act does not provide clearly on this point. It is felt that if service lines are paid for by consumers they should ultimately become public property, and the undertaking should have no more than trustee interest in them meantime. The undertaking is, it is true under an obligation to maintain service lines, but the cost of so doing is recoverable from consumers through the charges for supply of electricity. The undertaking should only have an outright proprietory interest in such service lines as it has itself paid for (which include replacement of service lines once paid for by consumers but which had since worn out).

Paragraph 14. - A reasonable definition of the basis on which managing agents' remuneration, including purchasing commission, may be calculated exists in the Indian Companies Act as amended in 1936. This basis has been adopted in the case of these Principles also. The question of the percentage remuneration which may be applied to the base has been carefully reviewed, and a sliding scale has been evolved reducing inversely with the size of the undertaking, as seems equitable.

Paragraph 15. - It is desirable that the Board of an undertaking should be of a reasonable size and that there should be some limit to the fees which the Directors are enabled to charge, just as a limit is proposed in the case of the remuneration of managing agents.

D.J.T. Paragraphs 16. It is desirable that the Government should have powers to intervene in case an undertaking is offering rates of pay insufficient to attract staff of adequate calibre for the proper performance of its public duties.

Paragraphs 17 .....

Paragraphs 17. -

i) It may be pointed out that the general adoption of the Principles should entirely remove one of the main reasons previously existing for calling upon Advisory Boards, namely the attempt to control profits by compulsory variations of charges.

ii) Under the new system the undertaking would be obliged to attend to this matter adequately itself (see para. 5(iii) of these notes). Thus the employment of a "Committee" should then only be required in the event of it being felt that due to improper costing, or without good reason, the undertaking's tariffs for supply are such as to recover an unduly small proportion of the total permissible revenue from one class of consumer at the expense of another.

iii) The proposals of paragraph 17 are however, intended to remove, the deficiencies in the provision of Clause XI of the Schedule to the Indian Electricity Act, as it stands at present, against any occasion when rates investingations do seem necessary under the Principles. In the existing Clause XI the period before and between the permissible investigation is too long, and the inability of the Board to recommend revisions of anything other than maximum charges (leaving actual charges out of account) is impractical. Furthermore, unless these Boards are constituted and conduct their proceedings on the lines proposed there may still be possibilities of considerable miscarriag of justice, with attendant lessening of the public investors' confidence, and consequent increase in the rates at which the supply undertakings can borrow money for development.

Paragraph 18. - This is designed to prevent undesirable inflation of an undertaking's property shortly before it is due for purchase.

Paragraph 19 .....;

Paragraph 19 - It would seem most necessary to avoid implementing any Principles without providing for subsequent reconsideration and amendment and for relaxation in special cases, as actual experience of working will almost undoubtedly shown up deficiencies, loopholes and inequities in a system of such general applicability and complex extent. At the same time, however, in order to maintain the confidence in a "fair deal" which the Principles seek to give to the public, both consuming and supplying and to promote all-India co-ordination, it is felt that it should be clearly laid down that no amendments or relaxations will be made except in accordance with the recommendations of a Committee fully as representative as that suggested.

Paragraphs 20 & 21 - No comment.

KCM/SNB.

Telephone - Cal:2035. No. ELC.2/1(E)-O.

Telegram - ELCIND. Dated 29-9-44.

From

The Electrical Commissioner

with the Government of India,

4, Hastings St., Calcutta.

To The Secretary, Government of Bombay,

Public Works Department,

Bombay.

Subject:— Public Utility Electric Supply Finance.

Sir,

Further to this Office letter No.El.C.2/1(E)-O of 9th August 1944, I enclose three copies of correspondence between the Government of Assam and this Office, which I have permission to circulate and which I think you will be interested to see.

2. This correspondence brings out a number of points which you like to consider along with your general examination of the proposals. It has also contributed to certain suggested modifications in the draft Recommended Principles and Explanatory Notes, which are indicated in red ink, for your information, on the extra copy of these also attached.

3. You will have noted that the draft Recommended Principles and the manner in which they could best be implemented, may come up for discussion at the next meeting of Policy Committee No. 3-C (Public Works and Electric Power), vide Labour Department letter No. EB1 of 9-9-44, addressed to all Provincial Governments. It is hoped therefore that you will be ready with comments which may assist in reaching a decision at the meeting.

I have the honour to be,
Sir,
Yours most obedient servant,

Encls:— Id/-

Lt. Col., I.E.,

(R.L. Evans)
Offg. ELECTRICAL COMMISSIONER.

D.J.T. KGM/pcm

7026/36

P. W. D.

El. Branch.

Submitted with ref. to the O.N. dated the 31-7-44.

2. These papers deal with the draft Recommended Principles for the Control of Public Utility Electric Supply Finance prepared by the Elecl. Commr. with the Govt. of India on the 29-6-1944. The original draft principles and the Explanatory notes the thereon have since been amended in some respects by the Elecl. Commr. in view of the comments received by him from the Govt. of Assam. These amendments have been indicated in red ink by the Elecl. Commr. in the copies of the original draft of the principles and the explanatory notes forwarded with his letter No.Elc.2/1(E)-0, dated the 29-9-44. For facility of reference these amendments have been shown in pencil in the first copies of the principles and the explanatory notes.

3. In his first letter, the Elecl. Commr. with the G. of I. has observed that the opinions of this Govt. on the Draft Recommended Principles which are to be considered on an All-India basis would be welcomed. In his letter of 29-9-44, the Elecl. Commr. observes that these principles and the manner in which they could best be implemented may come up for discussion at the next meeting of the Policy Committee No. 3-C (Public Works and Electric Power) and suggests that this Govt. may be ready with comments which may assist in reaching a decision at the meeting. The date of the meeting has not so far been announced. *

* Intimation reg: this since recd.- vide o.n. on p. 129 post.

Id/- 28/10/44

D.J.T.

4. The "Draft Recommended Principles" define important terms such as 'cost', 'Clear profits', 'capital employed', 'standard rate', 'reasonable return', etc., and make detailed provisions as to the creation of the 'Tariff and Dividend Control' and 'Contingencies', Reserves, the utilisation of these reserves, provision for depreciation, prohibition of declaration of dividends when there are arrears of depreciation to be written off, accounting for receipts and expdre. On service lines, maximum Managing Agency remuneration & office allnce., number of Directors and their fees, appointment of committee for the revision of the licensees' charges for the supply of energy, their constitution, etc.

5. With reference to the Original Draft Recommended Principles, pl. see comments:-

(i) by the Examiner, Outside Audit, Bombay, on pp. ante,

(ii) by the A.G., Bombay, on p. ante,&

(iii) by the El. Engr. to Govt. on pp. ante.

6. In his note, the Examiner, Outside Addit, refers to the Govt. Control as at present enforced in this Province and points out that there is no efidence of great alarm m caused thereby in the minds of the investing public (which is the reason for the introduction of the draft principles). He, however, observes that though there is perhaps no occasion for hasty action on the ground of great alarm caused in the minds of the investing public by Govt. control as at present enforced it is obviously desirable to standardise the aims and methods of Govt. control as is sought to be done by the "Draft Recommended Principles" so that the public, investors, managing agents and all concerned may know how Govt. regulation will work and feel assured that it will be reasonable wall considered anf just and not act spasmodically, harshly and indiscriminating and unequal manner. He has suggested certain stages in which Govt. Control can operate. In general he observes that the "Draft Recommended Principles" contain certain good points but will have to be considerably modified and split up for promulgation by suitable methods.

7. The A.G., Bombay, observes that the move to introduce all around some principle into this vexed business is welcome but he thinks there should be a certain amount of elasticity in order that in adjusting details local conditions may be given due weight. He agrees with the Examiner that the automatic disposal will be very difficult and that Advisory Committees have a valuable part to play.

D.J.T.

8. The El. Engr. to Govt. is of opinion that 'if clauses II and XI (pertaining to audit of accounts of licensees not being local authority and alterations in the maxima charges respectively) of the Schedule to the I.E. Act are properly implemented on similar lines to those operating in this Province the desired result aimed at in the 'Draft Recommended Principles' can be achieved by other Provinces who are not operating clause II (relating to audit of account of licensees) of the Schedule, with harmony and justice. He observes that had the author of the 'Draft Recommended Principles' inquired into the working of clauses II and XI of the Schedule from the various Provinces with special reference to Bombay Province the latter would have been saved from some of the many pitfalls which the 'Draft Recommended Principles' abound. He further observes that the 'Draft Recommended Principlse' as the Examiner Outside Audit remarks, contain some good points which can be adopted in the Bombay Province and incorporated in future licenses.

9. The principle points which have been brought out by the Examiner, Outside Audit, in his note are:—

(i) The draft requires important modifications before issue (para.3).

(ii) .....

(ii) The draft does away with the valuable safeguard in clause XI of the Schedule to the I.E.Act, 1910, in that para. 17 thereof reduces the period of 7 years after the commencement of the license prescribed in clause XI refs. to for appointment of an Advisory Boars to consider the maxima rates and the subsequent period of 5 years for appointment of another Board to three and two years, respectively (para. 4).

(iii) The Principles cannot be applied to the existing Licensees unless their licenses have similar provisions. (para 4-5)

(iv) The system will not work automatically as expected. Some authority will have to be given power to make calculations and enforce them subject to appeal (para. 6).

(v) Definition of the term 'cost' in para.1 (a) of the Draft Principles or its explanation re: it should be more specific in that the 'original value' as given by the books of the Undertaking need not necessarily be accepted as final by the authority enforcing the principles. The word 'Undertaking' should be defined. (Para. 10)

(vi) Definition of the term 'Standard Rate' in para. 1(e) of the Principles: Applicable to all undertakings irrespective of their circumstances: something of a Procrus thin bed (Para.12)

(vii) Constitution of the Committees (paras. 17 and 19 of the draft Principles): The provision that one of the members nominated by Govt. "shall be a registered accountant" is open to objection and should be deleted. The El. Engr. and the A.G. of the Province should be two of the members (para. 13).

10. The steps taken by this Govt. so far in respect of the control of the finances, etc. of the Electricity Undertakings in this Province are:

(a) Appointment of the Examiner, Outside Audit, for the audit of the annual statement of accounts of the Electy. Supply Undertakings under clause II(a) of the Schedule to the I.E.Act, 1910, in 1939 - vide G.R. No. 2561/36, dated the 12-4-1939.

(b) Apptt. of Advisory Committee in 1938 to investigate into the rates of all the Elec. Supply Coys. in the Province of Bombay which were more than seven years' standing and to recommend the maxima rates which they can be allowed to charge.

(c) Apptt. of Advisory Board under Section 35 of the I.E.Act, 1910 in respect of those coys. who were not willing to make any reduction in their rates on the basis of the recommendations of the Committee refd. to in (ii) above.

(d) .....

(d) Prescribing certain specific conditions for the grant of new licenses.

11. From the El.Engr.'s report, it will be seen that the arrangement at (a) above is working satisfactorily since its inception.

12. The theory and the method a dopted by the Committees and the Board refd. to in (b) & (c) above, have been explained by the Examiner, Outside Audit, in para. 6 of his note and the Annexure I attached thereto.

13. Re. (d) - With a view to protecting the interests of consumers the following specific conditions were laid down by the late Govt. to which the grant of every new license was subjected to:—

(1) That from the net profits the allotment to the licensee (or the shareholders) shall, in the first instance, be limited to 6 per cent, which rate shall not be cumulative, any surplus over this being distributed equally between:-

(a) the licensee (or the shareholders),

(b) the consumers.

This limitation shall not however come into operation until 3 years after the date of the commencement of supply.

(2) That Govt. will have the right to nominate a Director on the Board of a Supply Coy.

(3) That Govt. will appoint, or approve of the apptt. of, an auditor to examine the annual statement of accounts of the undertaking under clause II of the Schedule to the Indian Electricity Act, 1910.

(4) That no license shall be transferable except to a Coy. which may be floated for the purpose and then only on the basis of actual expdre. incurred by the licensee in securing the license and of any other capital expenditure incurred.

(5) That no license will be granted until the licensee has deposited with Govt. 20 p.c. of the total estimated cost of the works, this amount being refunded to him in instalments from time to time according to the value of the materials purchased and work done.

(6) That spl. maxima rates for power to be supplied to agriculture and small industries shall be laid down in every license; these rates being based on the cost of generation and delivery of such power.

(7) That the option of purchase given by Secn. 7(1) of the I.E.Act shall be exercisable first on the expiration of 30 years from the commencement of the licensee and thereafter on the expiration of every subsequent period of 10 years therefrom.

(8) That before granting a license to a Coy., Govt. shall have the right to examine any agreement between the Coy. and their Managing Agents, if any, and to require suitable modifications therein as a condition precedent to the grant of the license. A provision shall also be incorporated in alicense granted to a Coy. that any agreement between the licensee and the Managing Agents shall be subject to the approval of Govt. If the license is granted to an individual and it is afterwards sought to be assigned to a Coy., a Govt. will also then exercise control in a similar manner while granting the necessary consent consent under Section 9(2) of the Act.

(9) .....

m(9) That should a continous supply of energy of a nature and an amount and at a point suitable to the purpose of the license be offered by any person or Govt. willing to enter into an agreement with the licensee to supply energy to him for a period of not less than 7 years at such a charge that any of the limits of prices to be charged by the licensee, could, in the opinion of Govt., be reduced below the limits fixed by the license, as it stands or as it may be subsequently amended, the licensee shall from such date, as Govt. may fix, enter into such agreement with such person or Govt.

The decision of Govt. on the operation of this condition shall be final.

(10) That clause XI of the Schedule of the Act shall for the purpose of incorporation in the license be added to as follows:

"Provided further that where an order in pursuance of Condition (9) above has been made, the maximum charges fixed by the license, or as it may be subsequently amended, shall be reduced by an amendment of the license to such extent as Govt. may fix".

(11) That the licensee shall, whenever so required by Govt., employ unpaid apprentices passed candidates from the Mechanical and Elecl. Engineering Institutes in the Province of Bombay for a period of one year's training in connection with the power station and distribution system.

Provided .....

DJT.

Provided that the number of such candi-
dates to be so employed at one time shall be limited to two.

The question of revision of the above conditions was raised by Mr. Paton of Killick Nixon in 1941 and discussed with A(F). As a result of this discussion and further consideration it was decided to omit conditions Nos. 1 and 6 and to modify condition No. (9) refd. to above. It was decided to dispense with condition No. (1) which was objected to on all sides as its imposition was condidered entirely unnecessary in view of the fact that Govt. has the right under clause XI of the Schedule to the I.E. Act to alter the maxima rates fixed in a license ~~within~~ on the recommendation of an Advisory Board and such revised rates would be fixed in accordance with the prevailing rates of interest at the time. Condition No.(6) was omitted in view of the controversy that arose re: the interpretation of the term 'agriculture' and 'small industries'; it was decided that specific rates for such purposes can be stipulated in future licenses, if necy. Condition No. (9) was modified as the original condition was considered too one-sided to safeguard the Coys. or to induce reputable Coy. to put their money into undertakings. The revised conditions stipulated by the present Govt. are as under and they were announced in the Press Note, dated the 7-12-42:-

(1) .....

....:

(1) That the Govt. will have the right to nominate a Director on the Board of a Supply Coy.

(2) That the Govt. will appoint, or approve of the appointment of, an auditor to examine the annual statement of ~~as~~ accounts of the undertaking under clause II of the Schedule to the I.E. Act, 1910.

(3) That no license shall be transferable except to a Coy. which may be floated for the purpose and then only on the basis of actual expenditure incurred by the licensee in securing the license and of any other capital expdre. incurred.

(4) That no license will be granted until the licensee has deposited with the Govt. 20 p.c. of the total estimated cost of the works, this amount being refunded to him in instalments from time to time according to the value of the materials purchased and work done.

(5) That the option of purchase given by Section 7(1) of the I.E.Act shall be exercisable first on the expiration of 30 years from the commencement of the license and thereafter on the expiration of every subsequent period of 10 years therefrom.

(6) That before granting a license to a Coy. the Govt. shall have the right to examine any agreement between the Coy. and their Managing Agents, if any, and to require suitable modifications therein as a condition precedent to the grant of the license. A provision shall also be incorporated in a license granted to a Coy. that any agreement between the licensee and the Managing Agents shall be subject to the approval of the Govt. If the license is granted to an individual and it is afterwards sought to be assigned to a Coy., the Govt. will also then exercise control in a similar manner while granting the necy. consent under Section 9 (2) of the Act.

(7) .....

(7) That should a continuous supply of energy of such a nature and amount and at a point suitable to the licensee be offered by any person or by the Govt. willing to enter into an agreement with the licensee for such bulk supply of energy for a period of not less than seven years at such a charge as would be in the opinion of the Govt. cheaper than the total costs of generating a like amount of energy by the licensee's own power plant, then the licensee shall for the supply upon such terms and conditions as may be mutually agreed, or failing such agreement within a period of six months, as may be decided by arbitration.

The licensee agrees to utilise the reduction in cost arising from such purphase of bulk energy to reduce the rates for supply of energy to his consumers in such manner as may be approved by the Govt. after the bulk supply has been operating for at least one year.

(8) .....

(8) That clause XI of the Schedule to the Act shall for the purpose of incorporation in the license be added to as follows:—

"Provided further that where an order in pursuance of Condition (7) above has been made, the maximum charges fixed by the license, or as it may be subsequently amended, shall be reduced by an amendment of the license to such extent as Government may fix".

(9) That the licensee shall, whenever so required by the Govt., employ as unpaid apprentices passed candidates from the Mechanical and Electrical Engineering Institutes in the Province of Bombay for a period of one year's training in connection with the power station and distribution system.

Provided that the number of such candidates to be so employed at one time shall be limited to two."

14. The conditions mentioned in the preceding para. have been enforced in respect of licenses granted in and after 1939. Their applications to old licenses is considered if and when opportunity arises e.g. assignment.

15. As regards the 'standard rate' prescribed in the draft Principles, attention is invited to the discussions in the file 6730/36 put up below wherein an assurance has been given to Messrs. Killick Nixon & Coy. with reference to the erection of a new Power House by the Ahmedabad Electricity Coy. that the rate of interest shall in no case be less than 4 or more than 6 per cent. per annum and they were informed their the rate of provision for

..... [illegible] .....

.....

depreciation will be the average rate of depreciation actually allowed by the Coy. in the three years 1937-38, 1938-39 and 1939-40 or the rates shown in a Schedule whichever are lower. The Schedule in question is the same as that attached to the draft Principles except that life in respect of the following items has been raised as shown against them—

Item	From Years.	To Years.
1. Offices and Show-rooms.	30	40
2. Tempy. erections such as wood structures.	5	10
3. Steel Pipe lines, Sluice Gates, Steel surge tanks, hydraulic control valves.	30	40
4. Air Conditioning Plant (Portable).	7	12

16. In view of the opinions expressed by the Examiner, Outside Audit, the A.G., Bombay, and the El.Engr. to Govt. and the discussions refd. to in the preceding para., it is for consideration whether we may at this stage forward to the Elect. Commr. with the Govt. of India, a copy of the Examiner's Note, and inform him that while this Govt. welcomes the move to introduce all round some principle into this vexed business, it is of opinion that their application may be left to local Govt. with powers to adjust details to suit local conditions.

17. The papers may refd. u.o. to the Spl. Officer, Electric Grid, and the F.D. for remarks before submission to A(R).

Id/-
26/10/44.

I have discussed this question with the Examiner Outside Audit, and the E.E. to Govt. and I agree with the views expressed by them.

As suggested in O.N. (p.129 post) ~~xin~~ it would be desirable to discuss the subject in a conference with the Examiner C.A., the El. Engr. to Govt. S.O. Grid, and the Secy, F.D.

Id/-
30/10/44

As Secy (I) is away at Simla the papers may first go to the S.O. Grid to save time.

u.o. to s.o. Grid.

MEMORANDUM.

Subject :- Certain matters regarding future development of electric supply in India.

The issue of new licenses has generally been suspended in the last few years with a view to conserve resources for the effective prosecution of the war. This was necessary to conserve fuel, cable, wiring and accessories, but these considerations will no longer apply after the cessation of hostilities and the expansion of the industry will need to be actively encouraged.

2. It is, therefore, necessary to consider the policy to be followed regarding grant of new licences for electric supply in the immediate post-war period and this memorandum has been prepared to put forward certain matters that must be kept in view before arriving at decisions.

3. At the first meeting of the Policy Committee No. 3 (C) (Public Works and Electric Power) held in New Delhi on October 25th, 1943 regarding the further development of electricity supply in India, discussions led up to the recording of a resolution as follows:-

> "This meeting recommends that the further development of electricity supply in India be actively pursued as a State quasi-State enterprise and that steps be taken to eradicate any factors in the present system which retard the healthy growth of electrical development in the Provincial State and Local Authority owned undertakings as well as the Commercially owned undertakings. "

4. If this resolution is to be fully implemented, and electric service is to expand rationally in line with then needs of other industries and rural development, it would now seem necessary to reach a definite understanding on the

Practicability .....

practicability and extent of future State participation in the electric supply industry as well as on the circumstances and conditions (if any) under which new supply licenses may be granted to Commercial undertakings.

5. It may be felt that no immediate problem exists with regard to existing large and efficient electric supply undertakings, whether operated by Commercial concerns or by Provincial Governments, (through a greater measure of public control of some of the financial activities of the former may certainly be desirable and is, in fact, also under consideration), and that the problem to be solved relates more to the best manner of post-war development of hitherto untouched, or mismanaged areas. It is clear, however that means must be found to replace any licensees guilty of mismanagement as soon as possible.

6. I may perhaps first be advisable to mention briefly some of the reasons which led the Policy Committee to pass the resolution referred to above.

(a) In the past licences have often been granted to small enterpreneurs who have neither the commercial ability nor other desirable qualifications to enable them to under-take any aggressive expansion and, consequently, supply in the areas concerned has lapsed into a moribund state, with the Managing Agents, in certain cases, the only ones who are profiting from the venture. It is desirable that this should be avoided in future.

(b) .....

(b) Once a licence has been granted, the present legislation give the Government little control over the promotional activities of the undertaking, and the development of the area is left largely to the enterprise of the licensees' management. As a rebult, certain loads beneficial to the general economy of the area may be neglected because they do not show an immediate financial return to the supplier. This is evidenced by the almost complete lack of rural electric service in all but State-owned undertakings.

(c) Electrification by individual licensees has in many cases led to unco-ordinated and haphazard growth, with whole regional needs being neglected while the require--ments of urban areas take pride of place. There must always be considerable difficulty in obtaining agreement between private undertakings for joint expansion schemes, as the management of each will of necessity be concerned primarily with its owners moneys, and only with the welfare of the community served when it is productive to these owners.

7. For these reasons it seemed best that as a general rule when plans are being laid for post-war electric development, the State should contemplate carrying out such schemes itself or through its own agents, especially bearing in mind that the cost of money to Government or to a quasi-Government organization will be approximately half that charged to any new Commercial licensee.

8. It must be realised, however, that the building up, owning and operation of any electricity supply undertaking requires careful planning, and an organisation adequately equipped with commercial and technical personnel. Certain Provincial Governments have such organisations, but these have been the result of many years' work, and it willm not be in the public interest for other Governments to engage at once in running similar electricity supply undertakings unless throughly prepared.

9. .....

(9). It seems essential that, where a Provincial Government has decided to intiate State-wide plannning of schemes of electrification, a start should be made by carrying out a complete load survey of the province and the possibilities of economic generation, preferably in consultation with the Central Technical Power Board now in process of formation. A view held by some is that, thereafter, Provinces which have hitherto had no experience in running an electricity supply undertaking should make a start in active operation by "cutting their teeth" on "nursery" electrification schemes for small towns, and areas where rural load is abailable, purchasing in bulk for the purpose from existing or newly established reasonably efficient stations where practicable, and operating small power units, such as diesel generators, elsewhere. It is only natural perhaps that the more directly remunerative schemes may, on occasions, attract attention first, but it may be considered that the State should appreciate the situation from on all round economic point of view, and so avoid the accusations which are levelled against most private enterprise of only skimming the cream of the business and leaving the rest undeveloped.

10. It seems advisable that any new Provincial initiative in the field of electricity should not be administed "Departmentally", at least for longer than absolutely unavoidable, but rather that a separate Statutory Board should be constituted for the purpose. When the time is appropriate, such a Board would operate in those areas not fed by existing licensees, deal with areas taken over from mismanaged undertakings and, in due course, purchase other undertakings at the expration of their licences, if condi-dered advisable.

11. It is suggested that if any Government decides to organise the promotion of electricity by means of a Statutory Board, plans for the formation of such a Board should be initiated forthwith, as numbers of legal and administrative problems are likely to be involved.

12. In any case the setting up of a Board with really good technical staff, even if decided upon at once, is likely to take some time, and meantime it may be felt desirable by some Governments either to start work under a Departmental system, or to grant new licences to Commercially owned undertakings, so as not to hold up progress.

13. Should it be considered, having regard to the drawbacks of initiating Departmental operation, that Commercial operation is likely to give greater benefit to the community for the time being, then it will be necessary to lay down certain definite terms in the new licences, bearing in mind the opinion of the Policy Committee Meeting in Delhi on October 25th, 1943, that the ultimate nationalisation of this key industry is desirable.

14. For example, any uncertainty as to the explicit intentions of Government on the question of nationalisation will create uneasiness in the minds of the investing public and affect the flow of new capital into the industry. It is necessary, therefore, that the terms of new licences should, in particular, be very clear regarding the period of the franchise and the terms of ultimate acquisition, so that there may be no discouragement from investment in new plant as and when it becomes necessary.

15. With regard to the period of the license, it may be felt that this should be fixed with reference to the shortest time which will attract suitably qualified promoters. With regard to the terms of acquisition, it is felt that the present accepted definition of "value" as the "then market value plus a percentage of compulsory acquisition" is liable to lead to considerable doubt and expenses in arbitration,

and .....

and this might be avoided if some definition such as the "book value of the physical assets less the depreciation accrued on the prescribed scale", where included instead.

16. Any new licenses, or indeed modification of old licenses, should include a clear definition of the "reasonable returns" which the licensee may be allowed to earn during his tenure of the licence. This is necessary both from the point of view of protecting the consumer and ensuring to the investor a fair return on his investment. A memorandum on the subject was forwarded to your Government in July this year by the Electrical Commissioner.

17. The following further points should, it is felt, also be carefully considered when any new licence is under contemplation :—

1) Electricity supply is a long-term investment project and has none of the "get-rich-quick" features of many mushroom growth industries. The reasons behind any application for a licence should therefore be looked into.

2) Besides the requisite capital for the original installation, adequate working capital is necessary to meet operating expenses and growing demands during the first few years when returns are small. The financial stability of the applicants should therefore be very thoroughly investigated.

3) Competent operating staff is a pre-requisite to the success of any undertaking. The employment of technical personnel, including accountants and Secretaries should be subject to Government control.

4) .....

4) Preference should be given to promoters having previous experience of electric supply, and a satisfactory record.

5) The area of the licence should be limited to that which the licensee may reasonably be expected to develop during the continuance of his licence and, before Managing Agents are employed, the agency agreement should be approved by the Government before it is signed and should be included as a Schedule to the Licence.

BAM.27/10

Confde.

GOVERNMENT OF INDIA
DEPARTMENT OF LABOUR

E.B.I. Dated New Delhi, the 21st October 1944.

From

The Hon'ble Mr. H.C. Prior, C.S.I., C.I.E., I.C.S.
Secretary to the Government of India.

To

Provincial Governments and
Chief Commissioners.

Subject:- Development and control of electricity supply industry.

Sir,

I am directed to say that the Government of India have had under consideration the date for the nextmeeting of Policy Committee No. 3c-Public Works and Electric Power. They recognise the importance of holding this as early as possible but as the matters for discussion raise issues of great importance, consider it necessary that before the Policy Committee is called, the Government of India should ask for the considered views of Provinces. It has, therefore, been decided not to hold the meeting of the Policy Committee until the end of January.

2. The subjects which the Government of India propose to lay before the Policy Committee are the following:-

(1) Consideration of draft Recommendation (1) of the Draft Resolution forwarded to Provinces Vide page 18 of the Record of the first meeting of Policy Committee No.3-C (Public Works and Electric Power) and in particular consideration of the following points-

If that draft Recommendation is accepted, does such acceptance imply that the State should take every suitable opportunity that occurs to take over under the terms of leases public utility undertakings and if so should the Resolution be redrafted to make this clear?

(2) .....

(2) Consideration of the principles for the control of public utility electric supply finance.

(3) Consideration of Section 7 of the Electricity Act.

(a)* Is it advisable to ~~amend the Electricity~~ provide by amendment of that Act that, where power is given by that Act to a province to take over a public electricity supply undertaking, that power may be exercised by the Centre to the exclusion of the Province where the Governor-General is satisfied that the taking over by the Centre of that particular public utility undertaking is necessary for the satisfactory regional development not only within but also outside the borders of the Province?

(a)* Is it advisable to amend the Electricity Act to provide that, where under that Act an option is given to a local authority to take over, it shall be open to the Provincial Government to take over it it is satisfied that such taking over is necessary or advisable for the development on a Provincial basis of electric power in the Province?

(4) Statement regarding —

(a) the Central Technical Power Board, and

(b) Arrangements for the training of Electrical Engineerings and discussion of such arrangements.

3. As regards item (1) of the agenda, a memorandum is enclosed in which certain aspects of the question are discussed. This memorandum should not be taken as expressing the final views of the Government of India.

4. As regards item (2) of the proposed agenda, the Electrical Commissioner has circulated with his letter No. El. C.2 (E)-6, dated 9th August 1944 certain recommended principles and the Government of India propose that these recommended principles (with any modifications that the Electrical Commissioner may introduce on a consideration of replies received from Provincial Governments) should be taken as a basis for the discussions at the Policy Committee meeting.

5. .....

5. As regards item (3) the matter has not at present been considered here.

6. I am to request that your Government would consider items (1), (2) and (3) which are proposed as agenda for the Policy Committee meeting, and after consultation with the interests concerned - both consuming and producing in your Province - would forward their views to the Government of India to reach them not later than the 10th of December. The Government of India think it necessary that the Policy Committee should be held not later than the end of January, and if this is to be done, then Provincial Governments replies must be received not later than the middle of December.

7. I am also to ask that your Government would state whether they agree with the view of the Government of India that the Electrical Commissioner's recommended principles may be taken as a basis for discussion on item (2).

I have the honour to be,

Sir,

Your most obedient, servant,

Sd/- H.C.Prior,

Secretary to the Government of India.

COPY Encl: II. No. Elg. 40-24

IMMEDIATE

Office of the Special Officer
(Electric Grid)
Old Custom House Yard, Fort,
Bombay, 13th October, 1944.

To

The Secretary to Government,
Public Works Department,
Bombay.

Ref: Public Works Department endorsement No. 7127/36-El, dated 6th October 1944 on copy of Government of India letter No.F.B.6 dated 30th September, 1944:
Sub: Establishment of Central Technical Power Board.

The Draft Resolution of the Government of India on the above subject is generally on the lines recommended at the end of January last by the Technical Power Conference, of which I was a member.

Referring to sub-para 2 of para.2 of the Draft Resolution, it has been mentioned that "some, however, of the part-time members will be advisers of Government in other Departments such as the Industrial Adviser, or Agricultural Adviser". The total number of part-time members of the Board envisaged is five. If two out of these are non-technical men (that is they are not Electrical Engineers), the remaining number of three will, in my opinion, be insufficient to cover the field satisfactorily. Besides this, I feel that the Industrial Adviser or Agricultural Adviser to the Government of India will not be able to take effective part in the proceedings and work of the Board which will be entirely of a technical character (electrical).

(electrical). I am of the opinion, therefore, that all the proposed 5 five part-time members should be Electrical Engineers specialists in the various branches of Electrical Engineering. The Advisers to the Government of India like the Industrial Adviser or Agricultural Adviser should attend the meetings of the Board when subjects, in which they are interested, are under discussion or consideration. Subject to this observation, I am generally in agreement with the terms of the Draft Resolution.

Sd/- P.B.Advani.
Special Officer (Elec.Grid).

Encls: I

Below u.o.r. No. 6648/36 III, dated 19th October, 1944, from P.W.D.

Office of the Special Officer (Electric Grid).

Returned with compliments.

2. My remarks on the points raised are given below.

Item 1 of the Resolution:-

I ~~m~~ am of the opinion that the Electricity Supply Industry is not likely to be developed rapidly enough for the proposed all round industrial and agricultural development in the Country unless (1) the generation of electrical energy from the existing stations is rationalised and (2) new developments are carried out, not with an eye to immediate profit, but as a long range national necessity. Development on this basis can only be carried out as a State or quasi-State proposition As a State proposition the development is likely to be hemstrung by the usual red tape and rigid Government rules and procedure. I would, therefore strongly ~~a~~ advocate quasi-State control of all future Electric development. To enable rationalisation of the existing stations owned by licensees under the Indian Electricity Act, and ensure orderly development, a Province or a region should, where circumstances justify, set up a Provincial or Regional Electricity Board charged with certain obligations and invested with powers of the type possessed by the Central Electricity Board, England. For this purpose, legislation somewhat on the lines of the British Electricity (Supply)Act, 1926, and the Irish Electricity (Supply) Act,1927

etc. .....

etc. will be necessary. It would seem that such legislation on the ground that it sets up a "Trading Corporation" in the shape of an Electricity Board is ultra vires of the Legislative powers of a Province. Immediate steps should I think, be taken to meet this difficulty either by (1) an amendment of the lists of legislative subjects given in the Seventh Schedule of the Government of India Act, 1935, making the subject "Trading Corporation" a concurrent subject or (2) the passing of an Act by the Central legislature which will empower any Province to set up a Provincial Board of Electricity with definite statutory obligations and powers somewhat of the nature possessed by the Central Electricity Board set up under the British Electricity ~~Au~~ (Supply) Act, 1929, or (3) the Government of India agreeing to sponsor from time to time legislation in this regard for any Province which may decide to set up a Provincial Electricity Board for the control, rationalisation and development of Electricity Supply within its territories.

Item 3 (ii) of the Resolution:- It will be noted from the Government of India letter page 99 ante that a scheme is being prepared by the Government of India in consulatation with His Majesty's Government. I think we should await the Government of India proposals in this connection.

Id/- P.B.A.
23/10/44.

u.o.r.No.Elg.60/279
Bombay, 24th Oct. 44.

To
The Secy.to Govt.,
P.W.D., Bombay.

Below u.o.r. dated 30-10-1944 from the Public Works Department, El. Branch (File No. 7028/36 -).

Office of the Special officer (Electric Grid).

Returned with compliments.

2. I give here below my observations on the various items of the Agenda mentioned in the Government of India letter No.E.B.1 dated 21st October, 1944.

Item (1) of the agenda:

Consideration of Draft Recommendation forwarded to the Province : vide page 18 of the record of the first meeting of Policy Committee No.3-C, and in particular consideration of the following point :-

* "If the Draft Recommendation is accepted, does such acceptance imply that the State should take every suitable opportunity that occurs to take over under the terms of the leases public utility undertakings, and if so, should the Resolution be re-drafted to make this clear ?"

The Draft Recommendation (1) of the Draft Resolution mentioned above reads as under :-

"This meeting recommends that the further development of electricity supply in India be actively pursued as a State or quasi-State enterprise and that steps be taken to eradicate any factors in the present system which retard the healthy growth of electrical development in the Provincial, State and Local Authority owned undertakings as well as the commercially owned undertakings".

REMARKS: .....

- REMARKS:

I am of the opinion that the Draft Resolution should be accepted by the Province of Bombay, subject to the proviso that it should be modified to make it clear that the State or the statutory Board which may have been set up by it should take every suitable opportunity that occurs to take over public utility undertakings. Under section 7 (1) of the Indian Electricity Act, 1910, option to acquire is reserved to the Local Authority and in certain cases under section 7 (2)to the Local Government. The Act should be amended to reserve the option to the Local Government or the statutory Board which may have been set up by it in the first instance and failing it with the approval of the Local Government to a Local Authority. The same section also provides that the purchase price shall be the fair market value of the lands, buildings, works, materials and plant at the time of purchase plus a percentage, if any, not exceeding 20, on that value as may be specified in the license. This will lead to considerable argument and make acquisition unduly costly. I do not know if it will be practicable to enact that irrespective of the terms of an existing license in this respect the purchase price shall be the actual cost incurred by the licensee less the sums taken to depreciation. In any case, such a condition should be made in all the new licenses.

If the Resolution is to be implemented satisfactorily, and the electric supply industry is to be taken over as opportunity offers and run by the State departmentally or through a statutory Board, legislation will be necessary. This will specially be so if any Local Government decides to adopt the quasi-State method of control through a statutory Board. For an orderly and reasonably expeditious development ....

development of the electric supply industry, such a Board must be put in a position to exercise from the very commencement of its carrer the required control over the existing licensees in such matters as extension of their ~~x~~ Power Houses, generation of power by them, taking over their entire output of power and resale some of it to them etc. Our experience has shown that the setting up of a statutory Board for the control of electric supply industry in the Province is considered to be creating a "trading corporation" Legislation in respect of this subject is reserved to the Central Legislature and is beyond the legislative powers of a Province. This is an important constitutional difficulty. The Government of India should take immediate steps to have the list give under 7th Schedule to the Government of India Act, 1935, amended so as to make the subject "Trading Corporation" a concurrent subject of legislation. If this is considered to be difficult or that it will require an unduly long time, the Government of India should consider the advisability of undertaking Central Legislation enacted specially for a Province, which wants it, or for all-India use giving powers to the Central Government as well as any Local Government which may desire to set up a Provincial Electricity Board with definite statutory duties and obligations and powers of control. I attach hereto in this connection a copy of my remarks on a previous reference - u.o.r.No.Elg.60/279 dated 24th October 1944.

Item No.(2) of the Agenda.

Consideration of the "Recommended Principles for the control of Public Utility Electric Supply

Finance" :-

REMARKS :

I am generally in agreement in this connection with the remarks of the Examiner, Outside Audit, and the Electrical Engineer to Government, pages 35 to 82 ante. In addition to the observations made by them, I would state that the standard rates of interest, pages 96 and 97 (Recommended Principles), would be considered high for this Province. I think, it will be impracticable to fix uniform rates of return on Public Utility Undertakings established in the different parts of the Country. The Bombay investor being more industrially-minded than is the case in many other parts of India, is content with a lower rate than elsewhere. The Local Governments must have full discretion in such matters.

The "Recommended Principles" are intended for the guidance of Local Governments, in the matter of granting of new licenses or revision of existing licenses when the time comes for their renewal. If our Grid Bill becomes law, and if the policy adumdrated under item No. (1) above is finally accepted, the position in due course will be that the Bombay Electricity Board will be the sole purveyor of electricity in the Province. As opportunity arises, the Board will acquire the present Public Utility Concerns. Meanwhile, any new resources will be developed by the Board instead of by private licensees. No new licenses will be granted and in due course the undertakings of the present licensees will be acquired and will vest in the Board. In view of this, the "Recommended Principles" would appear to be of no great importance so far as

this Province is concerned.

Item No. (3) of the Agenda :

Consideration of section 7 of the Indian Electricity Act :-

(a) Is it advisable to amend the Electricity Act to provide that, where under that Act an option is given to a local authority to take over, it shall be be open to the Provincial Government to take over if it is satisfied that such taking over is necessary or advisable for the development on a Provincial basis of electric power in the Province ?

(b) Is it advisable to porvide by amendment of that Act that where power is given by that Act to a province to take over a public eledtricity supply undertaking, that power may be exercised by the Centre to the exclusion of the Province where the Governor-General is satisfied that the taking over by the Centre of that particular public utility undertaking is necessary for the satisfactory regional development not only within but also outside the borders of the Province ?

REMARKS :

(a) As stated under item No.(2) above, I am of the opinion that section 7 of the Indian Electricity Act, 1910, should be amended so as to reserve the power a Provincial Government or the statutory Electricity Board which may have been set up by it to take over an electrical undertak-

instead or a Local Authority.

(b) I am not in ~~f~~ favour of the Central Government exercising such a right to the exclusion of a Local Government. I feel that the Local Government, in whose territory the source of power lies and the station is located, should have the right to acquire it. There seems no reason to feel that a Province will not assume the responsibility of ~~xx~~ owning and controlling such a generating station and selling power both within and outside ~~itsx~~ territories. Only in the event of the Local Government or Governments concerned declining to exercise the option of purchase may the Central Government have the right to acquire the undertaking.

Item No. (4) of the Agenda:

Statement regarding -

(a) the Central Technical Power Board, and

(b) arrangements for the training of Electrical Engineers.

REMARKS:

The Central Technical Power Board -

I would invite a reference to my letter No. Elg.40/244 dated 12th~~x~~ October 1944, a copy of which is attached hereto for ready reference

Arrangements for the training of Electrical Engineers - There are at present in India several Institutions which impart training of a fairly high order in the theory of electrical engineering. Among these may be mentioned, the Indian Institute of Science, Bangalore and the College of Engineering, Poona. There are also available reasonably good facilities for the practical training

of ....

of men immediately after graduation. Good facilities for post-graduate and reserach work in electrical engineering are, howerve, not abailable; nor are facilities available for practical experience to fit men for certain types of work of high responsibility.

I am accordingly of the opinion that public money need not be spent in providing scholarships for sending yound men abroad for collegiate training in electrical engineering nor for a short practical course designed for men immediately following their graduation. Government should select yound Electrical Engineers of 30 to 35 years of age, who have already shown a promist in their carrer in India. Some of these men should be sent for advanced post-graduate work to fit them for advanced teaching and research work in the various branches of electrical engineering; some others should be sent for experience which will fit them to be (1) managers in the electrical supply industry, (2) Power costing and tariff rates engineers, (3) Hydro Electrical Engineers (4) E.H.T. transmission Engineers and (5) experts in the design and manufacture of electrical power plant and apparatus. This list of subjects is intended to beillustrative.

3. I note from para. 6 of the Government of India letter No.E.B 1 dated 21st October, that they desire the Provincial Governments to consult the consuming and producing interests in the Province. I know that the Electrical Commissioner has forwarded to the electric supply industry his draft recommendations which have been under consideration by them.

They .....

... therefore, be able to submit their remarks to Government on that item of the Agenda without any delay.

Encls :2

U.O.r.No. Elg. 96-338 E.B.A. 3/11/44.

Bombay, 3rd Nov., 1944.

To

The Secy. to Govt., P.W.D. Bombay.

DBT.

Although this is marked as case II, it does not appear that I have to deal with it at this stage.

2. I doubt if it will be sufficient merely to accept and forward copy of the note of Examiner outside Audit. It seems to me that he may not have covered all the points or that we may not agree with him entirely.

3. When this file is not required in conn. with the linked case, can it be send back to me for future study? I shall probably suggest discussion with Secy, S.O. Examiner Outside Audit and Ex.E. and myself before we give an opinion to Government of India.

20/11/44 Id/-

Secy. P. W.D. (I)

Return after dealing draft linked case.

Id/-
20-11

P.W.R.B.O.N.

The G.L. in the case no 6646/36-III having been issued, these papers are now resubmitted as decided above.

Id/-
25/11/44.

I have studied the proposed principles of control and Examiner Outsied Audit's note on them so far as my absence of technical knowledge permits.

2. I still consider it would not be sufficient to send the note as expressing our views without detailed

comment.....

comment on which parts of it we agree with, and that for that purpose we had better have the discussion suggested by Dy. Secy., in which I should like to take part. Probably immediately after we receive comments of Associations and answers by December 7th will be suitable, unless Secy. thinks it should be earlier.

3. As to my present reactions to the note, the question of standard rate seems most important. I doubt if it is a valid argument that, because circumstances of the different companies vary so considerably, from the case of the larger concerns which can easily bear a standard rate at one end of the scale to the cases of the smaller ones for which even a higher rate would not be sufficient at the other end of the scale, it is not practicable or desirable to have a standard rate, and that therefore each case should be fixed on its merits as at present. One cannot legislate for exceptions and I think the small uneconomical companies (some of which we hope will disappear when the Grid is established) should be left out of consideration. It is necessary to take an all-India view and it does seem desirable to have a general standard rate recognising that it would not apply to exceptions. We seemex to be more concerned with another point, viz. that if we put forward the Examiner's view, it may be thought that we agree to 7½% as a generally suitable average rate, whereas we are concerned to see that this should not more than 6%.

4. .....

4. Other points which occur to me now are :—

(i) The Examiner seems doubtful whether it is legal to issue such mandatory instructions. Do we accept this, or ought we to consult R.L.A. on this point?

(ii) The same applies to his point as to whether Companies can be forced to send their accounts every year.

(iii) He doubts whether 3 years is sufficient for a new company to settle down and for periodical review and observes that we now have 7 years and that the Advisory Committee cannot interfere on a subsequent occasion without an interval of 5 years. Do we accept this ?

4. If necessary Examiner could see this note urgently u.o.

Secy. P.W.D.(I).

1/12/44 Id/-

A copy of A(R)'s note should be sent immediately to the Examiner O.A.

2. As if Secy F.D. is to take part in the discussions and he has not seem these papers at all, he should be supplied with a copy of the G.of I. deaft. and the Explanatory notes (as sulsequently connected). A copy of A(R)'s note should also be sent to him. This should be done <u>in immediately</u> two copies of the E.O.A's notes should then be typed and one copy sent as soon as possible to the Secy. F.D. in continuaties of the draft

3. .....

3. The papers should be shown to Secy. (I) as soon as he returns to Bombay.

Id/-
4/12/44.

Office of the Electrical Commissioner
With the Government of India.

N O T E

Subject:- Income Tax Depareciation Allowances and Draft Recommended Principles for the Control of Public Utility Electric Supply Finance.

1. In requesting Labour (Department to send the "Recommended Principles" to the C.B.R.(vide my U.O. No. El.E.2/1(E)-Z of 4-7-44), I commented as below :--

"The reason for sending it to the CBR is that the depreciation allowances are quite different from the present permitted depreciation under the Indian Income Tax Regulations. While it is not necessarily proposed that the latter should be altered for public utilities, it will be observed that the whole of the calculations to arrive at a "reasonable return" are based on these new scales of depreciation. The scales of depreciation have been drawn up in line with the best accepted practice overseas suitable modified where necessary to meet Indian conditions."

2. This Office later suggested to Labour Department (vide Note with D.O. to Mr. Prior No. El.C.2/1/15 (D) -Q of 29.9.44) that the question of acceptance and implementation of the "Controls" should be brought up for discussion at the next meeting (January) of the Policy Committee No.3-C (Public Works and Electric Power), and that, should they then be accepted for implementation, the C.B.R. might be asked at the meeting for its views as to whether Income Tax Depareciation Allowances could be brought into line.

3.../.../.

3. In case the C.B.R. have not yet considered it from this aspect it may be pointed out that, although it is not <u>essential</u> to the proposed scheme of "Controls" (which, in regard to depreciation allowances, cover only appropriations actually booked) that Income Tax Allowances should fall into lines, there are the following considerations:-

a) The "Control" scales are based on the most up-to-date official estimate of "lives" in India which has been made, in respect of this particular industry.

b) They are more detailed than those at present used in the Income Tax Schedule.

c) They include allowance in respect of "lease-hold land".

d) It is not proposed to permit Undertakings to adopt a "written down value" (reducing balance) basis of appropriations in their books, for reasons which have been stated in the "Principles".

An additional and important reason is that it is fundamentally proper that tariffs for supply of energy should be designed to recover depreciation on the same basis as is to be employed in actual write-off, whereas, owing to the negative interest component of the "reducing balance" system, it is impossible to formulate a scientific tariff for supply which will result, automatically, in recovering depreciation on a "reducing balance" scale.

4. .....

4. With regard to items (a) and (b) above, it is felt the C.B.R. might possibly welcome adoption of the new scales as in line with a policy of making allowances approximate as closely as possible to best available estimate of lives. There is, of course, no need for special "shift allowances" in electric utilities.

Any question of adoption by the C.B.R. of item (c) may, I imagine, raise an issue of policy not confined to Public Utility Electric Supply Undertakings only; it may be noted, though, that this allowance is recognised as an expense of operation by the Electricity Commissioners in U.K.

Item (d) might at first sight appear also to raise a general issue. But the case for different treatment of electric supply undertakings would appear to be unique, bearing in mind (vide para 3 (d) above) that a "compound interest", or sometimes a "straight line", method of write-off is always advisable and would become Compulsory if and when "Controls" are implemented. Table 'A', with its equivalent graphical representation A1, illustrates anomalies arising as the result of income tax allowances being on a scale so divergent in effect from those most appropriate to the Industry. True, as will be seen from the statement and diagram, normal conditions at most large and flourishing undertakings are such that these are not likely to be much affected whether the system of allowances id changed or not, but the position may be very different in the case of small concerns (and in the case of large concerns if and when the plant is obsolescent). In the latter case, it is evident that there would be no harm in the incidence of different income tax and control systems in the early years, but later the undertakings would be faced with the highest incidence of taxation (due to

heavily .....

heavily decreased allowances) at a time when they would also hav e to be setting aside relatively high amounts of depreciation in their books. If therefore a return to, say, for simplicity, a "Straight line" method by the Income Tax Authorities in respect of Electric Supply concerns alone, would not involve much administrative difficulty, it seems the resulting mitigation of the anomalies referred to may afford sufficient justification for so doing if and when the "Controls" are implemented; perhaps indeed even now.

5. For ready reference relevant extracts from the Recommended Principles for the Control of Public Utility Electric Supply Finance are attached; also Table 'B', equivalent graph B1, and a memorandum, by way of further illustration of depreciation effects.

6. I should be glad if the views of the Central Board of Revenue could be ascertained having regard to the foregoing.

(H.M. Mathews)

KCM/SKS:
15.11.44

ANNUAL AMOUNT FOR WRITING OFF ASSETS WORTH Rs.25 LAKHS IN 20 YEARS.

YEARS	"CONTROLLED" WRITE OFF: Straight line method @ 5%	"CONTROLLED" WRITE OFF: Compound Interest Method (1) Fixed Component (2) Interest at (e.g.) 6%	Total	I/T ALLOWANCE: Reducing Balance Method at (e.g) 10%	REMARKS:
1.	2.	3.	4.	5.	6.
	Rs.	Rs.	Rs.	Rs.	
1.	1,25,000	67,961	67,961	2,50,000	Relatively LOW-RATE of Controlled Write off- relatively high rate of I/T allowance and LOW TAX.
2.	1,25,000	67,961 plus) 4,078)	72,039	2,25,000	
3.	1,25,000	67,961 plus) 8,400)	76,361	2,02,500	Average age of plant for SMALL CONCERNS in early period (small diversity of plant, no renewals or additions) - all plant nerely new.
4.	1,25,000	67,961 plus) 12,982)	80,943	1,82,250	
5.	1,25,000	67,961 plus) 17,838)	85,799	1,64,025	
6.	1,25,000	67,961 plus) 22,986)	90,947	1,47,622	
7.	1,25,000	67,961 plus) 28,443)	96,404	1,32,860	
8.	1,25,000	67,961 plus) 34,277)	1,19,574	1,19,574	Average age of plant for LARGE CONCERNS - EXPANDING - (large diversity of plant; regular renewals plus additions) - average age less than middle age.
9.	1,25,000	67,961 plus) 40,359)	1,08,320	1,07,617	
10.	1,25,000	67,961 plus) 46,858)	1,14,819	96,855	Average age of plant for LARGE CONCERNS - STATIC (large diversity of plant, regular renewals, no additions) - average age is, theoretically, middle age.
11.	1,25,000	67,961 plus) 53,747)	1,21,708	87,170	
12.	1,25,000	67,961 plus) 61,050)	1,29,001	78,453	

13. .....

1.	2.	3.	4.	5.	6.
	Rs.	Rs.	Rs.	Rs.	
13.	1,25,000	67,961 plus) 68,790)	1,36,751	70,607	
14.	1,25,000	67,961 plus) 76,995)	1,44,956	63,547	
15.	1,25,000	67,961 plus) 85,693)	1,53,654	57,192	
16.	1,25,000	67,961 plus) 94,912)	1,62,873	51,473	
17.	1,25,000	67,961 plus) 1,04,684)	1,72,645	46,325	Average age of plant for SMALL CONCERNS in later period (small diversity of plant, few renewals or additions) - most plant old. Also applies to LARGE CONCERNS with plant OBSOLESCENT.
18.	1,25,000	67,961 plus) 1,15,042)	1,83,004	41,693	Rolatively low rate of I/T allowance - and HIGHTAX - relatively HIGH RATE of Controlled Write off.
19.	1,25,000	67,961 plus) 1,26,023)	1,93,984	37,524	
20.	1,25,000	67,961 plus) 1,37,662	2,05,623	33,771	

B

ACCUMULATION IN WRITING OFF ASSETS WORTH, Rs. 25 LAKHS IN 20 YEARS.

YEARS	"CONTROLLED" Write off		I/T ALLOWANCE
	Straight lines Method @ 5%.	Compound Interest Method: Fixed Component plus Interest @ 6%	Reducing Balance Method at 10%
1.	2.	3.	4.
	Rs.	Rs.	Rs.
1.	1,25,000	67,961	2,50,000
2.	2,50,000	1,40,000	4,75,000
3.	3,75,000	2,16,361	6,77,500
4.	5,00,000	2,97,304	8,59,750
5.	6,25,000	3,83,104	10,23,775
6.	7,50,000	4,74,052	11,71,397
7.	8,75,000	5,70,456	13,04,258
8.	10,00,000	6,72,645	14,23,832
9.	11,25,000	7,80,965	15,34,449
10.	12,50,000	8,95,785	16,28,304
11.	13,75,000	10,17,493	17,15,474
12.	15,00,000	11,46,504	17,93,927
13.	16,25,000	12,83,256	18,64,534
14.	17,50,000	14,28,213	19,28,081
15.	18,75,000	15,81,867	19,85,273
16.	20,00,000	17,44,740	20,36,746
17.	21,25,000	19,17,386	20,83,071
18.	22,50,000	21,00,391	21,24,764
19.	23,75,000	22,94,376	21,62,288
20.	25,00,000	25,00,000	21,96,059 *

* actual scrap value may or may not approximate the residual value not written off under this system.

D.J.T.

MEMORANDUM

The following points may be worth bearing in mind in connection with the "Recommended Principles".

A Depreciation is to be deducted from the "capital employed" for tariff purposes, therefore, only such amount is allowed for depreciation as is exactly required for writing off the assets, no matter what method is adopted. In other words, any difference between the interest which is actually earned by invested depreciation reserve, and the interest component fixed in connection with writing off the exact amount due, will be disallowed by the application of the "fair return" principles.

In the case of the "reducing balance" method for instance, the interest component is as arbitrarily fixed in amount, and is negative in value. The accumulated reserve, being invested, will however be earning interest separately at a positive rate. Therefore the difference to be disallowed will be large.

In the case of the "straight line" method, the interest component fixed is nil, although the reserve will, similarly, be actually earning. The difference to be disallowed will therefore also be appreciable, although not so large as in the previous example.

In the case of the "compound interest" method, the interest component is as arbitrarily fixed in amount and is positive in value. It may, and should equal the rate at which the reserve is actually earning; and if it does, the difference to be disallowed will be nil.

It may here be recorded that interest actually earned by the depreciation reserve will be --

a) ....

a) the actual rate of return, if invested outside the business;

b) the interest recovered through the tariffs for supply, if invested inside the business.

From the foregoing it will be seen that to avoid disallowance of interest, with the consequent necessity for recurring tariff adjustments, a "compound interest" method with annuity maturing at rate (a) or (b), as the case may be, is theoretically essential.

It may be noted, however, that under certain conditions a stage may have been reached where there is not, for the time being, much difference in the individual annual requirements of "compound interest" and other methods of write-off, (see graph A1). It is while such conditions obtain that a "straight line" system is recognised in the Principles as having the practical advantage of simple accounting.

KGM/SKS:
15.11.44:

ELCIND.

No.El.C.2/1(E)-O
Dated 29.11.44

From -

The Electrical Commissioner
with the Government of India,
4, Hastings Street,
Calcutta.

To

The Secretary to Govt. of Bombay,
Public Works Department,
BOMBAY.

Subject:- Income Tax Depreciation Allowances and Draft Recommended Principles for the Control of Public Utility Electric Supply Finance.

Sir,

I am enclosing for your confidential information a copy of a note which has been referred to the Central Board of Revenue.

The Note is accompanied by a Memorandum and two Blue Prints with supporting table, and deals with the question of depreciation allowances to Electric Public Utilities for purposes of income-tax assessment. The papers are also felt to contain matters of general interest on the subject of depreciation accounting.

It must be clearly understood that this note is for further consideration by the Government of India and does not commit it

in any .....

in any way to altering the system or rates of depreciation under the Indian Income Tax Regulations.

I have the honour to be,

Sir,

Your most obedient servant.

Encls:-

Sd/-

Lt. Col.,I.E.,

(R. L. Evans)

Dy. Electrical Commissioner.

KCH/pcm.

Extract paragraph 6 of the Note by the Examiner, Outside Audit, Bombay, on the Draft "Recommended Principles for the control of Public Utility Electric Supply finance".

As a form of Governmental control has been working in the Bombay Province for a number of years, it may be useful to see in what respects the proposed procedure differs from that in practice in that province and whether any improvements can be effected from the experience of the province. So far, only the rates of undertakings under licenses in the forms issued before 1939 have come under review. The theory under which the Bombay Province Advisory Boards (or Committees) have proceeded all along is that they would make proforma calculations of surpluses and deficits, and on the basis of such pro-forma calculations decide what the rates should be. The undertakings are not told what they can pay and what they should not pay; in the pro-forma calculations however (a sample form vide annexure I of which is enclosed), the several figures in the published accounts and in the annual statements of accounts of the undertakings concerned are scrutinised and adjusted with reference to certain principles recognised by the Board. For example, whatever may be the terms of the contract of a Managing Agent with the Electricity Supply Undertaking regarding his agency remuneration and allowances, the Board recognises a certain standard of remuneration based upon the capital employed in the undertaking i.e., a basis somewhat similar to that in para. 14 of the "Recommended Principles". It is not contended that the Managing Agent cannot draw from the undertaking the amount he is entitled to under his contract with it, even if it is considered exorbitant or otherwise objectionable. .....

objectionable. What the Board says in effect is this. So far as we are concerned, we are of the opinion that the undertaking as a whole is entitled to a certain return for the use of its property and services; if the share-holders and the other persons interested in the profits of the undertakings are not able to induce the Managing Agents to accept less, then it is their own lookout and they must accept less return as a consequence. The same is the case also with depreciation; the amount of depreciation that is considered reasonable as a charge against the working of a year is considered in working out the surplus without taking into account the actual depreciation that is written off in the accounts of the undertaking, whether it is more or less. Pro-forma provisions are also made for the write off of Intalgibles, the creation of reserves and so on. At the end, a rate of return which varies with reference to the size of the undertaking, the locality in which it is situated, its possibilities and other relevant considerations is decided upon for each undertakings, and this rate of return is applied to a rate base (which is determined on the basis of the reasonable original cost less depreciation provided in the books of the assets of the undertaking useful and used in it), to arrive at the permissible return.

By deducting from the adjusted figure of receipts, the aggregate adjusted figure of expenditure (i.e. including the adjusted figures of working expenses, managing agency alowances and remuneration, depreciation, provision for writes off, provision for reserves, permissible return, etc.) the "surplus" available for reduction in

rates .....

rates is arrived at. The claims to relief of the several classes of consumers i.e. light & ~~fans~~ fans, power etc., are also discussed and the rates to be recommended to Government are finally arrived at. As representatives of the commercial interests and as the Electrical Engineer, and the Examiner, Outside Audit, are members with a retired judge as President, and as all interests can give evidence as witnesses before the Board, the calculations represent a considered judgement taking all the facts into consideration. Government has statutorily no choice but to accept the rates as recommended by the Board and has to issue orders accordingly specifying the date of effect. The calculations are not published and the undertakings cannot contest the details of calculations which after all have to be considered as a whole and have been arrived at by a competent, representative and impartial authority. Thus no occasions for dispute are given. The undertakings have no choice but to give effect to the rates ordered by Government on the recommendation of the Advisory Board but as already state, are not asked specifically to modify the payments made by them or their accounting. As the advisory boards can sit only after seven years from the commencement of the license and thereafter after expiration of further periods of five years, formal enquires into the rates of undertakings are not too frequent. This procedure of calculating "surplus" or "deficit" has some resemblance to that adopted by Income-tax Officers assessing income; only instead of Government servants doing the calculation a representative statutory Board does the calculation of "surplus".

ANNEXTURE

ANNEXTURE I - Vide para 6:

Form ~~From~~ of the Pro-forma Statement generally adopted by the Bombay Advisory Committees & Boards to assess the "Surpluses or deficits" in the working of electric supply undertakings.

****

Gross Revenue (A) -				x x x
Less:-				
(i)	Working expenses	(B)	x x x	
(ii)	Depreciation	(C)	x x x	
(iii)	Agent's remuneration.	(D)	x x x	
(iv)	Write off of intangibles.	(E)	x x x	
(v)	6% return on net capital block	(F)	x x x	
(vi)	¼% of the net capital block on account of contingent reserve		x x x	
(vii)	2% return on accumulations in the depreciation reserve fund.		x x x	
				x x x
	Estimated deficit or surplus.			x x x

A - includes revenue from sale of energy/~~x~~ and ~~x~~other ~~xxx~~ miscellaneous receipts from supply activities but excludes receipts from non-supply activities such as grinding mills, ice-factory, sale ....

sale of electric stores etc.

B - excludes depreciation and agent's remuneration and such other special items as writes off of furniture, special expenses, charities etc.

C - @ 12% of gross revenue or at half the income tax rates whichever is more favourable to the Company.

D - @ 7½% of net profits after allowing for depreciation subject to a minimum of Rs.350 p.m. in the case of undertakings having a capital of 2 lakhs and over and Rs.200 in the case of smaller companies. In the case of certain big undertakings showing heavy profits only 5% of the net profits has been allowed.

E - Provides for the write off of intangible expenditure such as preliminary expenses, license, brokerage etc.

F - The net capital block includes expenditure on assets (including stores) of the supply activities at the service of the consumers less the intangibles and depreciation provided to date on these assets. In certain cases more than 6% has been allowed but in no case has a return more than 7½% been taken. Cash and Bank balances are ignored.

****

T.E.

Id/-

GOVERNMENT OF INDIA.

DEPARTMENT OF LABOUR.

No.D.W.60(1).

Dated New Delhi, the 7th April, 1945.

From

S. Neelakantam, Esquire,
Under Secretary to the
Government of India.

To

(1) All Provincial Governments.
(2) Federation of Electricity
Undertakings of India,
Victoria House, Calcutta.

Subject :- Consideration of the principles for the control of public utility electric supply finance - Proposal to set up a Central Advisory Board.

Sir,

I am directed to refer to the above subject which was discussed at the meeting of Policy Committee No.3-C, (Public Works and Electric Power) held in New Delhi on 2nd February 1945. The following Resolution was unanimously passed by the Policy Committee:—

(a) "That the necessity, both in the interests of public utilities as well as of the general public, of laying down financial principles for the control of electric public utilities, be accepted;

(b) that an Advisory Board not exceeding 5 persons be set up under section 35 of the India Electricity Act, 1910 (IX of 1910) to advise Government on the nature, extent and method of application of such principles;

(c) that on this Advisory Board should be two representatives of the Central Government of whom one shall be Chairman, two representatives appointed by agreement with the Provinces, and one representative of the Federation of Electricity Undertakings in India;

(d) That the Advisory Board may appoint such assessors as may be necessary."

2. The Government of India have decided to constitute an Advisory Board in accordance with the resolution of the Polity Committee. The Board will consist of technical men and administrative officers who should be in a position to examine the Recommended Principles from the point of view of their suitability to Indian conditions. It is considered that ~~the~~ technical qualifications are likely to be of more importance than administration. The necessity for the representation of special interests on the Board has been recognised but it is considered that such representation would be best provided through assessors recommended in part (d) of the resolution. The Board will thus be composed of -

(i) a chairman to be appointed by the Central Government.

(ii) One representative of the Central Government,

(iii) Two representatives of the Provincial Governments,

(iv) One representative of the Federation of Electricity Undertakings of India.

The .....

The Board will examine the proposed financial principles from the administrative and technical points of view and report to the Central Government who will consider the report and circulate it to the Provincial Governments before taking any action on it. The Chairman of the Board will be authorised to appoint a representative of labour as an assessor to the Board and such other assessors representing various interests as may be necessary from time to time.

3. The Government of India feel that there will be considerable saving of time if the Recommended Principles are in the first instance subjected to a preliminary scrutiny by two reputable firms of Chartered Accountants. They consider that after this scrutiny, the Board will be able to conclude its deliberations in two or three sittings, whereas if the proposed preliminary examination is not made, the Board may have to meet continuously for three or four months and the Members of the Board, all of whom will be busy persons, will find it impossible to devote so much time to this work. This Department are therefore taking immediate steps to appoint two firms of Chartered Accountants for this preliminary work.

4. When the preliminary reports from these two firms is received, Government of India propose to place them before the Advisory Board, and the final recommendations of the Board will in due course, be circulated to the Provincial Governments before any action is taken on them.

I am .....

I am to request that if the Government of Madras, etc./Federation of Electricity Under-takings in India agree they may kindly suggest the name(s) of two/a representatives having the qualifications indicated in para.2 as early as possible and in any case not later than the end of April 1945, (so that Government of India may select two representatives of Provinces to serve on the Board).

() To Provinces only.

El.B. 12/4

Yours obedient servant,

Sd/-

7026/36 - Under Secretary to the Government of India.

Copy to - (1) All Chief Commissioners; (2) Electrical Commissioner with the Government of India, Calcutta; (3) Planning and Development Department.

12/4.

Sd/-

Under Secretary to the Government of India.

" 25-6.4.45-

DJT.

7026/36/12147.

P. W. D.

El. Br.

Resubmitted as directed by Dy.Secy.

2. Attention is invited to -

(i) Item (2) of the Agenda of the meeting of Policy Committee No. 3-C (Public Works and Electric Power) held in New Delhi on 2-2-45;

(ii) Item II of the summary of the proceedings of that meeting prepared by A(R); and

(iii) Item II in para.2 of the A(R)'s note dated the 7-2-45,

3. In accordance with the resolution of the Policy Committee the G. Of I. have decided to constitute an Advisory Board to advise Govt. on the nature, extent and method of application of the principles for the control of public utility electric supply finance. On that Advisory Board there will be not less than five persons of whom two will be representatives of the Provincial Governments. The G.Of I. request this Govt. to suggest the names of two representatives having the qualifications indicated in para.2 of their letter under disposal, to which a reply is asked before the end of the current month.

4. Orders are solicited on the G.of I's request. Perhaps the views of the Electrical Engineer to Govt. and the S.O.-(Grid), may be called for thereon in the first instance. If so, the papers may referred u.o. to them (in succession) with a request kindly to return them with their views as soon as possible and in any case not later than the 23rd instant.

5. .....

5. The papers will be submitted to A(R) on their return from the El. Engr. to Govt. and the S.O.(Grid.).

6. For orders.

Id/-
16.4.45

As it is considered that the advisory Board will be able to conclnde its deliberations in two or three sittings we may suggest the names of Mr. Higham the E.Engr's to Govt. and Mr. Advani, the S.O. Grid as the two representatives of this Govt. presumably presently the G.of I. will select only one out of the two.

-El. 16.4.45.

I agree with the names suggested in Dy.Secy (I & R)'s note; since however there are to be but two representatives of all the Provincial Govts of this; not more than the, & possibly not several, will be selected for this Province.

Id/-
20/4/45.

A(R) It seems extraordinary that, when there ar to be 2 members only in all, each of the 11 Provinces should be asked to send 2 names. I should say it was a slip.

2. We should reply that the names of of Mr. Advani and Higham are sent but add that since the future of Electricity in Bombay will in future merge in to Grid, we assume that Mr. Advani would be selected, if this price is given requisation and we should in fact not favour any Adding at as to requasition for this Province - it is hoped that (A M P. 133 of file 6646/36-IV)

Accordingly. Id/- 23.4.45 21.4.45.

7026/36
12147

No. 7026/36-El. P. W. D.
B.C. 24th April 1945.

From

R. H. Hammett, Esquire, M.Inst.C.E., I.S.E.,
Secretary to the G.Of B., P.W.D.(Irrign.)

To

The Under Secy. to the G. of I.,
Deptt. of Labour, New Delhi.

Subject : Consideration of the principles for the control of public utility electric supply finance- proposal to set up a Central Advisory Board.

****

Sir,

With ref. to your letter No. D.W. 60(1), dated the 7-4-45, I am directed to state that this Govt. suggests the names of Mr. P.B. Advani, O.B.E., M.Sc.(Tech.), M.I.E., J.P., Spl. Officer (Electric Grid), Bombay, and Mr. R.G.Hagham, M.I.E.E., M.I.E.(Ind.), J.P., Elecl. Engr. to Govt. Bombay, as its two representatives. Since the furture of Electricity in Bombay will, in future, merge into the Grid, it is assumed that Mr. Advani would be selected if this Province is given representation. In fact, this Govt. would not favour any other course.

2. I am to add that, since the Govt. of Bombay has already taken far-reaching steps for the rationalisation of electricity by a quasi-Govt. agency, it is hoped that provision will be made for representation from this Province

in .....

on the proposed Advisory Board anf that its Experience in that capacity would be useful to other Provinces as well.

Yours obedient servent,

Id/-
23-4-45.

D.A.- Nil.

Id/-
23.4.45.

Id/-
24-4-45.

No. 7026/36-El.

Public Works Department,

Bombay Castle, 24th April 1945.

From

R.H.Hammett, Esquir, M.Inst, C.E., I.S.E.,
Secretary to the Government of
Bombay, Public Works Department
(Irrigation).

To

The Under Secretary to the Government
of India, Department of Labour,
New Delhi.

Subject: Consideration of the principles for the control of public utility electric supply finance--Proposal to set up a Central Advisory Board.

Sir,

With reference to your letter No. D.W.60 (1), dated the 7th April 1945, I am directed to state that this Government suggests the names of Mr. P.B.Advani, O.B.E., M.Sc.(Tech.), M.I.E., J.P., Special Officer (Electric Grid), Bombay and Mr. R.C.High-am, M.I.E.E., M.E.E. (Ind) J.P., Electrical Engineer to Government, Bombay, as its two representatives. Since the future of Electricity in Bombay will, in future, merge into the Grid, it is assumed that Mr. Advani would be selected if this Province is given representation. In fact, this Government would not favour any other course.

2. I am to add that, since the Government of Bombay has already taken far-reaching steps

for .....

for the rationalisation of electricity by a quasi-Government agency, it is hoped that provision will be made for representation from this Province on the proposed Advisory Board and that its experience in that capacity would be useful to other Provinces as well.

Your obedient servant,

-/-
25.4.45.

D.A. - Nil.

for Secretary to the Government
of Bombay, Public Works
Department.

Copy forwarded with compliments for information to -

P.B. Advani, Esquire, Special Officer
(Electric Grid).

R.G. Higham, Esquire, Electrical Engineer
to Government.

The Special Officer, (Electric Grid),
The Electrical Engineer to Government.

GOVERNMENT OF INDIA

DEPARTMENT OF LABOUR

R E S O L U T I O N

New Delhim the 15th November 1945.

No.EB.60(1).- At the meeting of the Policy Committee on Electricity and Public Works held in February 1945, it was suggested that the draft code containing the "Principles for the control of Public Electric Supply Finance" prepared by the Electrical Commissioner to the Government of India should be scrutinized by an Advisory Board. The Government of India have accordingly decided to constitute an Advisory Board under Section 35 of the Indian Electricity Act to Examine the "Principles for the control of Public Electric Supply Finance" and to recommend to Government whether which of these Principles should be adopted and to what extent, and the manner in which these Principles should be enforced. The Advisory Board will be constituted as follows:-

1. Mr. H.M. Mathews, C.I.E., (Chairman)
   Electrical Commissioner with the Govt. Of India.
2. Mr. D.L. Mazumdar, I.C.S.,
   Joint Secretary to the Government of India, Department of Labour.
3. Mr. P.B. Advani, O.B.E., M.Sc. (Tech) MIE., J.P., Special Officer (Electric Grid), Bombay.
4. Mr. K.V. Karantha, Chief Electrical Inspector to the Government of Madras.

5. .....

5. Mr. I. A. Macphason Esqr. B.A.B.C.L.; Retired Chief Secretary to the Federation of Electricity Undertakings of India, (vide Govt. of I. memo No. El II/60 (I) D. the 26.11.46) File No. 7026/36/ 49358

2. The Advisory Board will be competent to call in assessors to assist the Board in such matters as in the view of the Board may require elucidation or clarification.

Provided that the Board shall call in as assessors such persons as may be nominated by the Government Of India to represent the views of particular interests.

Order.- Ordered that this Resolution be communica ted to all Provincal Governments, all Chief Commissioners, the several Departments of the Government of India (including Financial Adviser, War and Supply and Financial Adviser (Communications), the Additional Financial Adviser, Supply Finance), The Political Department, the Private and Military Secretaries to His Excellency the Victory and the High Commissioner for India.

Ordered also that the Resolution be published in the Gazette of India, for general information.

D. L. Mazumdar

Joint Secretary to the Government of India.

Copy also forwarded to the Electrical Commissioner with the Government of India, 4 Hastings Street, Calcutta.

Id/-

Deputy Secretary to the Govt. of India.